



# *Daily Report—*

# China

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# Daily Report

## China

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25 August 1995

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### General

#### Further Comments From Foreign Ministry Spokesman

##### Wu Ruling, Conference Unrelated

HK2508035795 Hong Kong TA KUNG PAO  
in Chinese 25 Aug 95 p 1

[Special Dispatch]: "Foreign Ministry Spokesman Chen Jian Says Ruling by Local Court Has Nothing To Do With Sino-U.S. Relations"]

[FBIS Translated Text] Beijing 24 Aug (TA KUNG PAO)—Ministry of Foreign Affairs spokesman Chen Jian said here today that the ruling of a local court of justice on Wu Hongda was entirely an independent judicial action by a judicial department in accordance with the principle of state sovereignty, and had nothing to do with Sino-U.S. relations. He added that passing sentence on Wu Hongda had nothing to do with the UN Fourth World Conference on Women or the visit of the U.S. Undersecretary of State.

##### On Sino-U.S. Ties

OW2408145595 Beijing XINHUA Domestic Service  
in Chinese 1254 GMT 24 Aug 95

[By reporters Gao Xinghua (7559 5281 5478) and Tan Guoqi (6223 0948 0892)]

[FBIS Translated Text] Beijing, 24 Aug (XINHUA) — Foreign Ministry Spokesman Chen Jian reiterated today that the United States should use real actions to honor its pledge to handle relations with Taiwan in accordance with the "one China" principle and make practical efforts to return to the principles prescribed in the three joint communiques so as to create an atmosphere and conditions favorable for the development of Sino-U.S. relations.

Chen made the statement in answer to a reporter's question at a news conference this afternoon.

A reporter asked: Following the recent meeting between the Chinese and U.S. foreign ministers, U.S. Undersecretary of State Peter Tarnoff came to China for consultations between the Chinese and U.S. vice foreign ministers. What is China's basic stand on handling Sino-U.S. relations?

The spokesman replied: China attaches great importance to Sino-U.S. relations, believing that the maintenance and development of normal and good relations between China and the United States conform to the fundamental interests of the two countries and the two peoples and also are in the interest of safeguarding peace and stability in the Asia-Pacific region and the world as a

whole. However, the development of Sino-U.S. relations must follow the principles set forth in the three Sino-U.S. joint communiques, whose core is the Taiwan issue. The recent meeting between Chinese and U.S. foreign ministers was a positive one. We have taken note of the fact that the United States has indicated it would handle U.S. relations with Taiwan in accordance with the "one China" principle. The pressing task now is that the U.S. side should use real actions to honor this pledge and make earnest efforts to return to the principles set forth in the three joint communiques, so as to create an atmosphere and conditions favorable for the development of Sino-U.S. relations.

A reporter asked: It was reported that Sino-Korean consular consultations are being held in Beijing. What results have the consultations achieved?

The spokesman answered: The first Sino-Korean consular consultations were held in Beijing on 23 August. During the consultations, Zhang Hongxi, director of the Chinese Foreign Affairs Ministry's Consular Affairs Department, and Kang Ung-sik, director-general of the Overseas and Consular Bureau of the Korean Ministry of Foreign Affairs, reviewed the development of the two countries' consular relations since the establishment of Sino-Korean diplomatic relations and exchanged views on certain problems existing in the two sides' consular contacts. The two sides have achieved common understanding on many issues. Director Zhang Hongxi has also had consulted with the Korean side on issues concerning the legitimate rights and interests of Chinese residing in Korea and simplifying visa application procedures for Chinese personnel, as well as fishery disputes. The consultations proceeded in a sincere, friendly, and frank atmosphere.

##### Denies Nuclear Aid to Pakistan

OW2408134295 Tokyo KYODO in English  
1015 GMT 24 Aug 95

[FBIS Transcribed Text] Beijing, Aug 24 KYODO — Chinese [as received] denied Thursday a recent U.S. intelligence report that China directly aided Pakistan in developing nuclear weapons in the early 1970s.

A Foreign Ministry spokesman called the report "completely groundless" and refused further comment.

The report, obtained from the Central Intelligence Agency by KYODO NEWS SERVICE in Washington, said China began directly aiding Pakistani scientists develop a nuclear weapon in 1974, resulting in the successful production of nuclear bombs in 1983.

At that time China maintained strong diplomatic relations with Pakistan, resulting from a 1971 treaty of

peace and friendship between India and the Soviet Union, both of which had unpleasant relations with Beijing.

China, which has a history of border clashes with India, supported Pakistan in the Indian-Pakistan war of the mid-1970s.

#### **Li Peng Addresses Statistics Conference**

*OW2408223695 Beijing XINHUA in English  
1526 GMT 24 Aug 95*

[FBIS Transcribed Text] Beijing, August 24 (XINHUA) — Premier Li Peng said here today that China will set up advanced data networks by paying great attention to the establishment of automatic statistics information system in the last five years of this century.

The premier said that there is a big gap between China and developed countries in statistics work, yet the country's construction of a socialist market economy requires more attention to be paid to the compilation of statistics to have more precise and timely statistics.

Li, who is honorary chairman of the conference, made the remarks when meeting with nearly 30 representatives of the 50th International Statistics Conference, which opened here Monday [21 August].

Some 1,800 deputies from 85 countries and regions are attending the conference, with "Global Statistics and Their Impact on the Future" and "China's Statistics" and other topics on their agenda.

#### **Team Surveys Reactor Site in DPRK**

*SK2508010295 Beijing China Radio International  
in Korean 1100 GMT 24 Aug 95*

[FBIS Translated Text] On 23 August, a survey team of the Korean Peninsula Energy Development Organization [KEDO] composed of 10 ROK, U.S., and Japanese experts concluded an on-the-spot survey of a light-water reactor site proposed by the DPRK.

According to reports, the DPRK suggested that its future nuclear power plant be built in Sinpo, a city on the coast located 140 km northeast of Pyongyang. The KEDO survey team, along with DPRK nuclear experts, conducted a survey on the geological, [word indistinct], and other conditions of Sinpo for a week and held lengthy discussions in Sinpo and Pyongyang.

The survey team has begun to discuss the propriety of Sinpo as a site for building light-water reactors, based on the result of the on-the-spot survey conducted last week and the results of the former Soviet Union's geological survey of the city in the 1980's, which was provided by the DPRK.

According to the agreed framework on the nuclear issue reached between the United States and the DPRK in October 1994, KEDO — a consortium organized with the United States, the ROK, and Japan at its center — is supposed to provide the DPRK with two light-water reactors that will replace the existing graphite-moderated reactors of the DPRK.

#### **Religion Policy for Women's Conference Outlined**

*OW2508102195 Beijing XINHUA in English  
0852 GMT 25 Aug 95*

[FBIS Transcribed Text] Beijing, August 25 (XINHUA) — China will set up prayer halls in the Olympic Village and in Huairou during the World Conference on Women to be held here from September 4 to 15.

This move is intended to provide places for worship for foreigners of different religions who are attending the meeting and to satisfy their religious needs, a leading member of the Bureau of Religious Affairs of the State Council said in a recent interview with XINHUA.

He said that respecting and protecting freedom of religion is China's basic policy, and noted that the Provisions of the Administration of Religious Activities of Aliens within the Territory of the People's Republic of China and the Regulations on the Administration of Sites for Religious Activities promulgated last year are two important administrative codes for religious affairs.

During the conference, China will strictly act in accordance with these two codes, respecting the freedom of religion of foreigners within China's territory and protecting their friendly contacts and cultural and academic exchanges with Chinese religious groups, he said.

When asked whether foreigners can carry religious articles for daily use to China during the conference, he said "Aliens entering Chinese territory can carry religious printed matter, religious audio-visual material, and other religious articles for personal use, according to the Provisions of the Administration of Religious Activities of Aliens within the Territory of China.

"But, if the number of such religious printed matters, religious audio-visual materials, and other religious articles is greater than for personnel use, it shall be dealt with in accordance with Chinese Customs provisions," he explained.

He noted that religious printed matter or religious audio-visual materials whose contents are detrimental to the public interest of Chinese society are forbidden inside China.

Foreigners who wish to conduct religious activities in China are not allowed to engage in missionary activities,

and should abide by Chinese laws and regulations, he added.

What they do in China should not sabotage China's public interest, or interfere in its internal political and religious affairs in any way, he said.

### United States & Canada

#### Further on Harry Wu's Sentencing, Expulsion

OW2408120395 Beijing XINHUA Domestic Service  
in Chinese 0958 GMT 24 Aug 95

[FBIS Translated Text] Wuhan, 24 Aug (XINHUA) — This morning, the Wuhan City Intermediate People's Court handed down a first-instance judgment in connection with the case of Wu Hongda [Harry Wu]. The court sentenced the defendant to 15 years in prison and to be expelled from the country [pan chu you qi tu xing shi wu nian bing qu zhu chu jing 0445 5710 2589 2601 1778 0438 0577 0063 1628 1629 7517 6632 0427 1064] in accordance with relevant provisions of the PRC Criminal Law after finding him guilty of the crimes of stealing, spying, and illegally providing state secrets to overseas institutions, organizations, and people, and of passing himself off as a government worker to carry out deceptive activities. If he does not agree with the first-instance judgment, he may appeal to the Hubei Provincial Higher People's Court within 10 days; if he signals his intention of not filing an appeal, the judgment will become legally binding immediately.

A native of Wuxi City, Jiangsu Province in China, Wu Hongda left Wuhan City in 1985 to visit relatives in the United States, and later obtained U.S. citizenship. Using an assumed name, he sneaked into China several times to illegally obtain our country's state secrets and to engage in criminal activities. On 19 June, while trying to sneak into China again, he was spotted by officers from public security organs at a frontier inspection post. On 30 June, the Wuhan City Public Security Bureau decided to place Wu Hongda's residence under surveillance. With the Wuhan City People's Procuratorate's approval, the Wuhan City Public Security Bureau arrested him on 8 July in accordance with the law.

On 6 August, after investigating the matter, the Wuhan City Public Security Bureau submitted Wu Hongda's case to the Wuhan City People's Procuratorate for review. On 12 August, in accordance with Article 3 of the "Criminal Law of the People's Republic of China" and Article 100 of the "Criminal Procedure Law of the People's Republic of China," the Wuhan City People's Procuratorate initiated proceedings in the Wuhan City Intermediate People's Court.

Reporters today learned from the Wuhan City Intermediate People's Court that the court formed a panel,

which held a closed-door session to hear the case in accordance with the law on 23 August.

The hearings ascertained that from 1991 to 1994, Wu Hongda entered China or bribed other people outside the mainland to enter the country under the pretext of visiting friends, traveling, and doing business for the purpose of stealing and spying on our country's state secrets and providing them to overseas institutions and organizations. Three times, he went to two prisons in Shanxi to film guard facilities, reform-through-labor sites, and prison layouts. He and a man named Chen each stole confidential documents from two factories in Shanghai Municipality. He signed a contract with a man from Hong Kong named Feng and paid the latter \$4,000 to enter the mainland to film and spy on our prison guard facilities. He later entered China with a woman reporter from a foreign broadcasting corporation, using a hidden video camera to spy on and film prison management and facilities in Xinjiang. Accompanied by Chen, he filmed guard facilities and the layout of a prison in Shanghai Municipality, and provided his filmed materials to overseas institutions and organizations. In August 1991, Wu Hongda, wearing a police uniform, passed himself off as a policeman and sneaked into the Tanghe Prison in Qinghai to carry out illegal filming.

Based on the facts of the crime and evidence that the court had examined and verified, the court confirmed that Wu Hongda had violated the "Supplementary Regulations on Punishing the Crime of Leaking State Secrets" promulgated by the National People's Congress Standing Committee, and Article 166 of the "PRC Criminal Law;" that Wu Hongda was guilty of illegally obtaining, spying on, and illegally providing state secrets for overseas organizations, and of impersonating [mao chong 0379 0339] a government worker for deceptive activities; and that the crime was particularly serious and should be strictly punished according to the law. After assessing the facts of the crime and considering the evidence as well as Wu Hongda's relatively good attitude in admitting to his crime and his having been used by others, the collegiate bench pronounced the verdict mentioned above.

According to the chief judge, during the court's investigation, Wu Hongda confessed to the crime he was accused of by the Wuhan People's Procuratorate, and he raised no objection to the material and documentary evidence produced by the court as well as the witnesses' testimony. The two lawyers entrusted by the accused defended him. In his final statement, Wu Hongda pleaded guilty. According to reporters, prior to the court session, Wu Hongda had written a "letter of confession" to admit his crime and repent his error.

Reporters have also learned that, prior to the opening of the trial, the Chinese Foreign Ministry met, by appointment, an official of the U.S. Embassy in China and notified him when and where the court session would be held; and that, in accordance with the Sino-U.S. treaty on consular affairs, an embassy official was permitted to be present at the court session as an observer. After Wu Hongda was arrested, competent Chinese authorities, at the request of the U.S. Embassy in China and in accordance with the Sino-U.S. treaty on consular affairs, let Arturo S. Macias, minister-counsellor and consul general, as well as and Piccuta, first secretary and consul, of the U.S. Embassy in China, to have separate meetings with Wu Hongda in Wuhan on 10 July and 9 August, respectively.

It has been learned that, while in custody, Wu Hongda, in accordance with the law, received good humane treatment and timely and effective medical treatment for his leg ailments; and the accused has expressed profound thanks for this.

#### **Expulsion of Wu Announced**

*OW2408170995 Beijing XINHUA Domestic Service in Chinese 1619 GMT 24 Aug 95*

[FBIS Translated Text] Wuhan, 24 August (XINHUA) — This reporter learned from relevant departments that immediately after the Wuhan City Intermediate People's Court gave Wu Hongda [Harry Wu], an American national, a ruling of 15 years' imprisonment and deportation this morning, Wu Hongda stated to the court that he would not lodge an appeal. In his written pledge to the Wuhan Intermediate People's Court, he said: "I obey the ruling" and "I renounce the right to lodge an appeal." In accordance with the court's ruling, China's relevant public security organ expelled Wu Hongda according to law this evening.

#### **Further on Expulsion**

*OW2408171595 Beijing XINHUA in English 1708 GMT 24 Aug 95*

[FBIS Transcribed Text] Wuhan, August 24 (XINHUA) — Wu Hongda (Harry Wu), an American, who was sentenced to 15 years in prison and expulsion from China by a Chinese court, was expelled from China this evening, according to the department concerned.

The Wuhan City Intermediate People's Court sentenced Wu Hongda to 15 year's imprisonment and to be expelled from China this morning.

Immediately after the sentencing, Wu told the court that he would not appeal to the higher court. "I accept the court decision" and "I give up the right to appeal," Wu said in a written pledge to the court.

Wu was expelled from China this evening by the Chinese public security department concerned, in accordance with the court judgment.

#### **Wu's Activities Detailed**

*OW2508020495 Beijing XINHUA Domestic Service in Chinese 1605 GMT 24 Aug 95*

[By XINHUA reporters Liu Siyang (0491 1835 2254) and Peng Shujie (1756 2885 2631): "Wu Hongda's Present, Past, and Confessions"]

[FBIS Translated Text] Wuhan, 24 Aug (XINHUA) — It happened in Wuhan City, Hubei Province, this morning.

The chief judge of the Wuhan City Intermediate People's Court announced at the solemn court: The court sentences Wu Hongda [Harry Wu], an American citizen, to 15 years' imprisonment and to be expelled from China, for having committed the crimes of stealing and spying out state secrets and illegally supplying them to overseas institutes, organizations, and figures, and of passing himself off as a government worker for deceptive purposes.

The American citizen who committed crimes in China has been given his due punishment by Chinese laws.

#### I

Wu Hongda, a native of Wuxi City in Jiangsu Province, was born in Shanghai in 1937. From May 1961 to May 1964, he received — rehabilitation through labor at the Qinghe and Tuanhe farms near Beijing because he secretly contrived to cross the border and committed theft after his graduation from a university. After his rehabilitation through labor was over, he was hired by the Wangzhuang Coal Mine in Huoxian County, Shanxi Province. Later, he was transferred to teach at the Shanxi Institute of Finance and Economics and Wuhan University of Geology. In 1985, he went to the United States to visit his relatives. He did not return home and afterward obtained American citizenship. He currently serves as a guest professor at the Hoover Institute of the U.S. Stanford University, chief of the China Section of the U.S. Congress "Human Rights Subcommittee," and director of the Labor-Through-Reform Fund.

In recent years, to illegally obtain and spy out materials to be used to slander, attack, and oppose China, and provide them to overseas institutes and organizations for personal fame and benefits, Wu Hongda resorted to all kinds of despicable tricks. During 1991-94, he used the names of Harry Wu and Peter Wu several times when he entered China under the pretext of visiting friends, touring, or doing business to engage in illegal activities.

What he did violated Chinese laws and he was guilty of committing crimes.

Today the reporters interviewed Zhang Tianshe, chief judge of the No. 1 Criminal Court of the Wuhan City Intermediate People's Court, requesting him to describe the trial of Wu Hongda's case.

The chief judge briefed the reporters on the facts of Wu Hongda's principal crimes:

On 16 June 1991, accompanied by Chen (female), Wu Hongda went to the Huozhou Prison in Shanxi Province under the pretext of visiting friends and took the opportunity to film the jail's guard facilities and layout. On the following day, still under the pretext of visiting friends, he took Chen to the Yangquan No. 2 Prison in Shanxi and took opportunity to surreptitiously film the prison's guard facilities. On 29 July 1991, he came to the same prison again. He asked two persons to take him to the prison's work site and filmed prison facilities using a video camera hidden inside a bag. Later, he illegally provided his video tapes to an overseas organization.

On the afternoon of 18 June 1991, Wu Hongda passed himself off as an employee of a U.S. company, and took Chen to a factory in Shanghai. Pretending that he wanted to buy the factory's products and under the pretext that the surrounding was noisy, they came to the factory leadership's office. When others were not paying attention, Wu Hongda stole a confidential document from a desk in the office. On the afternoon of the following day, he went to another factory in Shanghai, passing himself off as a businessman. Under the pretext of discussing business, he came to the chief engineer's office. When others were not paying attention, Wu Hongda, once again, stole another confidential document from the office before his departure.

In early August 1991, wearing a police uniform obtained from others, he passed himself off as a policeman to obtain entry to a prison in Qinghai Province to carry out illegal activities. There he filmed the prison's surroundings using a video camera hidden in a bag and later provided the video tapes to an overseas organization.

On 12 March 1993, on behalf of the anti-China Reform-Through-Labor Fund, which was managed by him, Wu Hongda signed a contract with a person called Feng in Hong Kong, and provided Feng with \$4,000 in operating funds for carrying out activities. According to the contract, Feng took photographs of the security installations of prisons in Zhejiang, Hubei, and other provinces.

In late April 1994, under the pretext of meeting retired prison worker Zhang, Wu Hongda and Chen secretly took pictures of the security installations and layout of a prison in Shanghai.

At the court, the prosecutor read the indictment citing the major crimes committed by Wu Hongda, as mentioned above.

During court investigation, when the chief judge asked Wu Hongda if he did commit the aforementioned crimes, Wu Hongda answered: "Yes, it is correct. They are true."

According to the Wuhan City Intermediate People's Court, on 9 August, Wu Hongda submitted on his own to a competent department a "letter of confession" personally written by him. In the letter, he said: "After pondering and doing introspection, I sincerely make the following statement: To sum up, the following are some facts that I directly or indirectly caused damages to the Chinese Government and people and violated Chinese law." The "facts" mentioned in Wu Hongda's "letter of confession" mainly are:

"In the summer of 1991, I actively took part in the United States' CBS' production of anti-Chinese television films and provided assistance to the company, which created very bad influence. I came back twice, and the major offenses I committed are as follows:

"Under the pretext of doing business, I won other people's trust and sneaked into some reform-through-labor units to make video films, take photographs, and steal secret documents.

"Using personal connections and my past work background, I went to some reform-through-labor units to make video films and take photographs for CBS.

"Later, I openly testified at the U.S. Congress with the videotapes, photographs, and documents; and, on various occasions, I publicized these materials in newspapers and magazines and at public rallies."

"In the summer of 1994, at the instigation of the BBC, I, taking part in producing the so-called 'Dead Prisoners' organs' anti-Chinese television film, again came back and led BBC workers to reform-through-labor units in Xinjiang, Sichuan, and other localities, to secretly make video films."

The major part of the aforementioned crimes confessed by Wu Hongda conforms to the crimes committed by him as cited in the indictment of the Wuhan City People's Procuratorate.

In his "letter of confession," Wu Hongda said: "The aforementioned acts of mine seriously violate Chinese

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## INTERNATIONAL AFFAIRS

law; therefore, I should be tried and sanctioned [zhi cai 0455 5932]."

The chief judge said the trial of the Wu Hongda case was conducted on 23 August. During the trial, three witnesses testified at the court, and the court presented large amounts of written proofs and witnesses' testimonies.

In his final statement at the court, Wu Hongda said: "I have said and written everything I want to say. I have nothing more to say."

**II**

Using secret means, Wu Hongda obtained the country's national secrets and provided them to organs and organizations outside China to blacken China's image. He committed unforgivable crimes against the Chinese people.

In the last few years, a British broadcasting company broadcast several times two television films fabricated by Wu Hongda and others. The films publicized the false charges against China that it exported the so-called prison products and transplanted and sold organs of executed prisoners, creating extremely bad influence outside the country.

According to Wu Hongda's confession, the two films were fabricated completely out of nothing by him and others by resorting to dishonest practice of putting in substitutes.

In early April 1994, Wu Hongda entered China with a woman reporter from BBC, carrying hidden video camera. On the pretext of studying the Silk Route, they successively went to Xinjiang and Sichuan, and secretly filmed scenes of the so-called China's export products made by prisoners and transplant and sale of internal organs from executed prisoners. After they took those filmed materials out of China, the BBC used them in concocting two TV films.

A TV film on the so-called export products made by Xinjiang No. 2 Prison contains the scene of a busy street which seems to be outside the prison. According to the film, all the leather jackets and children's garments sold by stores and stands on the street are export products made by prisoners.

In fact, there is no such street outside Xinjiang No.2 Prison. After Wu Hongda was arrested by our border defense authorities, he admitted during interrogation by public security personnel that it is a "very busy street in downtown Urumqi." He also confessed that the leather jackets and children's garments are "obviously not" export products made by Xinjiang Prison, and those stands and stores "have nothing to do with" the prison.

When asked why they were connected together, Wu Hongda answered, "It is wrong."

The film alleges: "Prison-made products account for one-third of the commodities sold in Xinjiang and one-half of Xinjiang's total export products."

When asked about the basis for such an allegation, Wu Hongda said: "It is not the fact." He had to admit that "the allegation is wrong" and "it is a distortion of fact."

The film also shows some burial mounds and tombstones, insinuating to viewers that they are prisoners' tombs. In fact, they are local residents' tombs. Wu Hongda confessed during interrogation that "he knew they are local people's tombs" at the time of filming.

On 12 April 1991, Wu Hongda and the BBC woman reporter, passing themselves as a married couple, visited the urological department of No.1 affiliated hospital of Huaxi Medical University in Chengdu City. He lied to the doctors receiving him, saying that he was a researcher of a U.S. university, and his uncle had a chronic kidney disease and needed a kidney transplant; and he showed the doctors a falsified hospital record.

The TV film repeatedly shows scenes of a surgery to "prove" that the hospital was performing a kidney transplant using the so-called organ from an executed prisoner.

In order to film those scenes, Wu Hongda asked the doctors to let him visit the surgery room and ward so that he could familiarize himself with the hospital's conditions and assure his "uncle." On the next day, the hospital made arrangements for Wu Hongda and the BBC reporter to watch from the observation platform the proceeding of a heart surgery for placing an artificial mitral valve in No. 15 surgery room of the hospital. The patient was Chen Zuchuan, assigned to no. 29 bed in the surgical ward. When Wu Hongda was talking with the doctors, his "wife" took the opportunity to film the scenes of the heart surgery. Later, those scenes suddenly became the scenes of the so-called kidney transplant with organ from executed prisoner in the BBC TV film.

During interrogation by our judicial personnel, Wu Hongda admitted that he "does not have an uncle," and "the hospital record was falsified" to "deceive people." He also confessed that "none of the doctors told me about kidney from executed prisoner."

In interview with reporters, the responsible person of the hospital angrily pointed out: In the TV film concocted by Wu Hongda and others, the scene of the surgery was actually not one of kidney surgery. Besides, many shots in the film, including those of a lawn on which the reporter stands to interview two male patients and the

background buildings, were not taken in this hospital. The restaurant in the film is not the hospital restaurant nor any nearby restaurant, and those dining in the restaurant are not hospital employees. The allegation of the film that "the hospital is full of patients from Hong Kong, Taiwan, Europe, and the United States seeking organs" was also fabricated by Wu Hongda and others. Wu Hongda admitted during interrogation: "I did not see any foreigners there. Not a soul."

Wu Hongda admitted in his "letter of confession" that he "took part in making the anti-China film on the so-called use of organs from executed prisoners in organ transplant, at BBC's request." He said: "I am to blame" for the practice of "concoction and wanton distortion of facts" in the TV film.

### III

Before Wu Hongda left China in 1985, he was already degenerated and had done many evil things.

In September 1959, while he was doing field work with the hydrological brigade of the Beijing Geological Bureau, Wu Hongda was sent by the Beijing City public security departments to receive reeducation through labor for three years for stealing money from his roommate. After the reeducation was over, he stayed behind and took up a job at the Wangzhuang Coal Mine in Huoxian County, Shanxi. However, he did not mend his ways and continued to frequently steal public property. He said shamelessly: "I will take whatever I need for my daily life from the mine."

While working at the Wuhan Geological University, Wu Hongda ganged up with shopkeepers on many occasions and used false invoices to buy recorders, electric fans, and other things. He was severely criticized by the university for this. In 1982, he forged the signature of a leading cadre to be reimbursed for traveling expenses and the university issued a circular to all units to criticize him.

While teaching at the Shanxi Finance and Economic Institute and the Wuhan Geological University, Wu Hongda was punished for enticing girl students into unlawful sexual intercourse and was punished.

Wu Hongda did many evil things and he always had "a grudge against" the criticism and education given him by the leadership and the three years of reeducation through labor. He felt that China "owed" him something and he wanted to "settle old accounts" with China. To oppose China, he collected materials which could be used to sling mud at China. His "target was to go deep into the mainland's 'Gulags' (concentration camps), to secretly take first-hand photos" there, and then to make great efforts to play up and disseminate his materials.

To improve his "skills" in this respect, Wu Hongda said that he had spent two years beginning from 1989 on making plans and preparations for "using special methods to go deep into China to conduct investigation" and that he had gone through special training for four months. Facts have proved that the "special methods" he mentioned means to use methods such as a disguised identity, taking photos secretly, and so on, to steal and spy out China's state secrets.

### IV

Wu Hongda's criminal evidence is clear and conclusive. His crimes are especially serious. He should be severely punished according to the laws of China. In view of the fact that after he was brought to justice, Wu Hongda's attitude toward admitting his crimes was quite good and he showed signs of repentance and that he was also made use of by other people in committing his crimes, the court meted out light punishment to Wu Hongda according to law.

These reporters have learned that in his "letter pleading guilty," Wu Hongda admitted that his actions have "done harm to the Chinese Government and people and have violated China's laws." He said that "in the face of facts," "I keenly regret and feel remorse for the consequences of what I have done." He said that in future "I will not be made use of by international anti-Chinese and anticommunist forces" and that "the event of reform through labor was indeed, to a great extent, the result of my own doing and I am willing to gradually wipe it out and I do not want others to make use of my personal experience and mention it again." He said, "I have made clear that I am determined to withdraw from and disband the Reform-Through-Labor Fund and that I have no intention to take part in this kind of activities again." "At present, it is evident that I have violated the laws of China and I am responsible for my mistakes and crimes." The so-called "Reform-Through-Labor Fund" was set up by Wu Hongda in 1992 and its aim is to conduct anti-China activities of collecting the so-called information about reform through labor.

The trial of the Wu Hongda case has come to an end today. This fact shows to the people of the world: Anyone, no matter who, who has violated the laws of China shall be punished according to the laws of China. This is China's sovereignty and is the sanctity of the laws of China.

**Wu's 'Record' Detailed**

*OW2408162295 Beijing XINHUA in English  
1602 GMT 24 Aug 95*

[Wu Hongda's Record — XINHUA headline]

[FBIS Transcribed Text] Wuhan, August 24 (XINHUA) — The chief judge of the Intermediate People's Court of this capital of Hubei Province issued a ruling this morning that Wu Hongda (Harry Wu), an American citizen, had been found guilty of spying and illegally obtaining state secrets and providing them to overseas institutes, organizations and persons, and of passing himself off as a government worker for deceptive activities.

The court sentenced Wu to 15 years' imprisonment and to be expelled from China.

Zhang Tianshe, the chief judge of the No.1 Criminal Court of the Wuhan City Intermediate People's Court, briefed reporters here today on Wu Hongda's criminal record.

Wu was punished according to Chinese laws for the crimes he had committed within Chinese territory, Zhang said.

Wu, a native of Wuxi City in Jiangsu Province, was born in Shanghai in 1937. From May 1961 to May 1964 he received rehabilitation through labor at the Qinghe and Tuanhe farms near Beijing because he secretly contrived to cross the border and committed theft after his graduation from a university.

After his rehabilitation through labor was over, he was hired by the Wangzhuang Coal Mine in Huoxian County, Shanxi Province, before working as a teacher at the Shanxi Institute of Finance and Economics and Wuhan University of Geology.

Shortly after he went to the United States in 1985 to visit his relatives, he obtained American citizenship. He currently serves as a guest professor at the Hoover Institute of Stanford University of the United States, chief of the China Section of the US Congress "Human Rights Sub-Committee" and director of the Labor-through-Reform Fund.

In recent years, in order to illegally obtain materials to be used to slander, attack and oppose China, and provide them to overseas institutes and organizations so as to gain fame for himself and make money, Wu resorted to all kinds of despicable tricks.

During the 1991-1994 period he used the names of Harry Wu and Peter Wu several times when he entered China under the pretext of visiting friends, travelling or doing business to engage in illegal activities. What

he did violated Chinese laws and he was guilty of committing crimes.

On June 16, 1991, accompanied by a man named Chen, Wu went to the Huozhou Prison in Shanxi Province under the pretext of visiting friends, and filmed the jail's guard facilities and layout. On the following day, still under the pretext of visiting friends, he took Chen to the Yangquan No.2 Prison in Shanxi and filmed the prison's guard facilities.

On July 29 he came to the prison again. He asked two persons to take him to the prison's work site and filmed prison facilities using a video camera hidden inside a bag. Later, he illegally provided his video tapes to an overseas organization.

On the afternoon of June 18, 1991 Wu passed himself off as an employee of a US company, and took Chen to a factory in Shanghai. Saying that he wanted to buy the factory's products, Wu managed to steal a confidential document from a manager's desk.

On the afternoon of the following day he went to another factory in Shanghai, passing himself off as a businessman. Under the pretext of discussing business, he wormed his way into the office of the chief engineer and stole a confidential document.

In early August 1991, wearing a police uniform, he passed himself off as a policeman to obtain entry to a prison in Qinghai Province to carry out illegal activities. There he took film footage using a video camera hidden in a bag and later provided the video tapes to an overseas organization.

On March 12, 1993, on behalf of the anti-China Reform-Through-Labor Fund manipulated by himself, Wu signed a contract in Hong Kong with a man named Feng. Under the terms of the contract, he provided 4,000 US dollars in operating funds to Feng so that the latter could film guard facilities of prisons in Zhejiang and Hubei provinces, and other places.

In late April 1994, under the pretext of meeting a retired prison worker named Zhang, Wu and Chen clandestinely filmed guard facilities and the layout of a prison in Shanghai.

During Wu's trial the public prosecutor read a list of the above accusations, to all of which Wu answered in the affirmative.

According to the Wuhan City Intermediate People's Court, on August 9 this year Wu handed a "letter of confession" he had written personally to the competent authorities.

In the letter he said, "After thinking carefully and self-examination, I have sincerely drawn the conclusion that the following facts show that I have damaged the interests of the Chinese government and the Chinese people directly or indirectly and that I have violated Chinese laws."

"The following facts" cited by Wu in his letter of confession are:

"In the summer of 1991 I took an active part in and assisted the CBS television network of the United States in making anti-China TV films, producing an extremely bad influence. During trips to China on two occasions I committed the following major criminal acts:

"Under the pretext of doing business, I gained trust through deception and sneaked into a number of reform-through-labor units to make video films, take pictures and steal documents;

"By making use of friends and my own experiences, I went to a number of reform-through-labor units to make video films or take pictures, and provided them to CBS;

"Later, I went so far as to produce video tapes, pictures and documents before the US Congress in testimony. I also used them for publicity on various occasions, including newspaper and magazine articles, and public gatherings.

"In the summer of 1994, instigated by the BBC, I returned to China again and took BBC workers to reform-through-labor units in the Xinjiang Uygur Autonomous Region, Sichuan Province and other places to secretly make video films;

"I participated in making the anti-China TV documentary dealing with the alleged traffic in the organs of executed prisoners.

The crimes confessed by Wu basically accorded with the charges listed in the prosecution initiated by the Wuhan City People's Procuratorate.

In his letter of confession, Wu said that the above-mentioned acts of his seriously violated Chinese laws and he should be tried and punished.

The case of Wu Hongda was heard on August 23. Three witnesses testified, and large amounts of documentary evidence and testimony were presented during the hearing, the chief judge said.

In his final statement, Wu said, "I have said everything I wanted to say and written everything I wanted to write. There is nothing more."

Wu was a morally degenerate man with a lengthy record of crimes before he left China in 1985. He had been given three years' rehabilitation through labor for theft

and a disciplinary sanction for seducing to rape a girl student when he was a teacher.

Wu resented criticism by his superiors and his three-year sentence to rehabilitation through labor. This he made clear in a video he made, titled, "The Inside Story of the Chinese Mainland".

In it he says, "There is only one enemy for me, and that is the communist system on the Chinese mainland."

With the aim of fighting against China, he collected materials which could damage the prestige of the country. He sneaked into China to get first-hand pictures of what he called "China's Gulag".

Wu admitted that he had spent two years preparing for the special method to sneak into the Chinese mainland and carry out investigations since 1989 and had received special training for four months.

The criminal facts are clear, the evidence is conclusive and the crimes were serious. Wu deserved to be punished according to Chinese law.

After considering his admission of guilt, his signs of repentance and the fact that he had been used by others, the court gave Wu a lenient sentence.

In his letter of confession, Wu said his actions had damaged the interests of the Chinese government and the Chinese people, and violated Chinese laws.

He said he was distressed about the consequences he had caused and expressed remorse. He said he "is not willing to be used by the international anti-China and anti-communist forces again" in the future.

"I have indicated that I am determined to withdraw from the Reform-Through-Labor Fund (which was set up in 1992 to collect materials concerning reform-through-labor in order to engage in anti-China activities) and have no longer any interest in such activities," he said.

"It is obvious that I violated Chinese laws and should take responsibility for my criminal acts and wrongdoings," he added.

While in custody, it is learned, Wu received humane treatment. Wu told Daniel Piccuta, an official from the US Embassy, who went to visit him August 9, "the food is OK in the prison, and the living conditions are OK." Wu received timely medical treatment for his leg ailments, and was deeply moved by this. "I never expected that," Wu told Piccuta.

Adjudication of Wu Hongda's case ended today. It showed that anyone who violates Chinese law must be punished according to Chinese law. This demonstrates

the sovereignty of China and the dignity of Chinese Law.

**'Obstacle' for Ties Removed**

*OW2508012395 Beijing XINHUA in English  
0115 GMT 25 Aug 95*

[FBIS Transcribed Text] Washington, August 24 (XINHUA) — The White House said Thursday that U.S. President Bill Clinton welcomed the decision by a Chinese court to expel Chinese-American Wu Hongda (Harry Wu) after he was found guilty and sentenced to 15 years in prison.

Wu said he accepted the decision handed down by a court in Wuhan, central China and that he would not appeal.

Wu was expelled from China in accordance with the court judgment Thursday.

In a statement released at President Clinton's vacation retreat in Jackson Hole, Wyoming, White House press secretary Mike McCurry called Wu's expulsion as an action that "removes an obstacle to improving relations between the United States and China."

**Release, Conference Unrelated**

*HK2508074895 Hong Kong EASTERN EXPRESS  
in English 25 Aug 95 p 10*

[Editorial: "Wu Deserves a Hero's Welcome"]

[FBIS Transcribed Text] Finally, the magic of a United States passport has worked. China has come to recognise and respect the strength of a travelling document issued by a strong power.

The case of Harry Wu took a surprising twist last night — he was "expelled" from China immediately after receiving a 15 year prison sentence.

If it becomes a precedent that a 15 year jail sentence passed on a prisoner by a court in China can be served in an evil Western country like the United States — because life there is a thousand times worse than in the socialist paradise of China — it would be good news for the millions of prisoners in China's labour camps.

Wu's unusually good luck must be envied by a great number of Chinese dissidents, including Wei Jingsheng, who is still being detained for unknown reasons.

A Chinese Foreign Ministry spokesman, Chen Jian, said yesterday afternoon that the sentencing of Wu had nothing to do with Sino-US relations.

Again, like most Chinese officials, he blatantly lied.

Wu's timely release signifies that Beijing cannot afford any further deterioration of Sino-US relations.

China also wants to create an atmosphere of harmony in the run-up to the United Nations Conference on Women, to be held in Beijing early next month.

It is revealing that Wu was released on the eve of the meeting between the US undersecretary of State, Peter Tarnoff, and the Chinese Vice-Foreign Minister, Li Xaoxing, in Beijing.

Tarnoff's visit was intended as a damage limitation exercise, and hopes were pinned on it for an improvement in relations on a quid pro quo basis: expel Wu, Hillary Clinton goes to Beijing, and other weightier issues and potential flashpoints can be discussed at a Washington summit between Presidents Bill Clinton and Jiang Zemin.

If China had imprisoned a naturalised US citizen for spying and divulging government secrets, charges which no-one in the US believed, then Sino-US relations could have been damaged for decades.

If Hillary Clinton decides to go to China as a reward for Jiang's kindness shown to Wu, it would be tantamount to showing China that the strategy of holding dissidents to blackmail the US works.

In order to dispel China's illusion, Hillary Clinton should announce, once Wu returns to the US, that she will not attend the conference.

Such a cruel farce must not be allowed to happen again.

China's behaviour regarding Wu has been bizarre and baffling. The videotaped "confession", now on sale in China, shows a startling lack of savoir faire, even for a nation isolated from the rest of the world for decades.

They are mistaken if they believe they can get any more mileage out of Wu's detention.

In the US, there is widespread admiration and support for the man regarded as a courageous fighter for human rights, and a person of immense integrity.

Wu deserves a hero's welcome by those who treasure freedom and detest dictatorship.

**U.S. Called Post-Cold War 'Super Arms Dealer'**

*HK2508032595 Beijing RENMIN RIBAO in Chinese  
7 Jun 95 p 6*

[ "Jotting" by Mu Ni (4476 1441): "Super Arms Dealer" ]

[FBIS Translated Text] Although the Cold War has ended, the peak sales period for the number one arms dealer in the world is not over.

According to statistics released by Washington recently, in 1993 the U.S. sales volume of arms reached \$15

billion, and another \$21 billion was agreed to in futures deals. Last year, the gross volume of arms exports of the United States reached \$14.5 billion, and the five-year arms agreements signed involved another \$40 billion. The arms business of the United States alone "surpassed the sum of all other arms-exporting countries in the world." Judging from this, it is not too much to say that the "only superpower" after the Cold War is also the "super arms dealer."

After the Cold War, national contradictions and regional clashes increased instead of decreasing, and this constitutes a feature of the world situation. As a superpower which wants to "play a leading role" in all aspects, the United States should devote itself to the stability of all regions. But it stretches its hands everywhere to take advantage of regional clashes to promote arms sales. According to statistics, U.S. arms and military technology have been sold to 141 countries and regions all over the world, and American arms dealers are in control of 72 percent of the Third World arms market.

According to statistics, among 50 regional clashes happening in the world now, the United States is the major arms supplier for 45 of them, and it supplies arms to both sides of the clashes. The World Policy Research Institute, with its headquarters in New York, has pointed out: "United States arms have played a dominant role in clashes in Haiti, Guatemala, Mexico, Colombia, Turkey, East Timor, the Philippines, Somalia, and Kenya."

In fact, the United States was a "super arms dealer" as early as the Cold War. Since the Cold War ended, the United States has been saying that it would control and decrease its arms trade, but in fact, these are only pleasant words. If you do not believe it, there are facts to prove it: The highest Pentagon official openly stated that efforts would be made to "find buyers" for U.S. arms dealers, and the U.S. department concerned also instructed U.S. embassies in foreign countries to "promote arms deals in the same way they promote deals in agricultural products and medical instruments." From this, it is not difficult for the average person to see some background as to why regional clashes are happening frequently at present.

### Northeast Asia

**Further on Hsu Li-te Absence From APEC Forum**  
OW2408150495 Beijing XINHUA in English  
1446 GMT 24 Aug 95

[FBIS Transcribed Text] Tokyo, August 24 (XINHUA) — Prime Minister Tomiichi Murayama said today that Japan adheres to its one China policy and will not allow Taiwan's Hsu Li-te to attend the Osaka APEC forum in November, according to the MAINICHI SHIMBUN.

Murayama told a breakfast meeting that the Osaka forum will follow the mode of the previous APEC meetings in Seattle, the United States, and Bogor, Indonesia, the newspaper said.

It would be harmful to the development of Japan-China relations to allow Hsu to attend the Osaka meeting, the paper quoted the prime minister as saying.

### Japan's Attitude Toward War Crimes Criticized

HK2508033995 Beijing RENMIN RIBAO in Chinese  
21 Jul 95 p 6

[Article by Gu Ping (0657 1627): "Only by Facing History Squarely Can One Advance Toward Reconciliation"]

[FBIS Translated Text] As the world commemorates the 50th anniversary of the war against fascism, a gratifying phenomenon is appearing in Europe: All countries are reviewing their history and summing up experiences and lessons. Some have even taken the initiative to look in introspection at their own actions during World War II and assume responsibility in the name of their countries for their actions during the war.

Germany has repeatedly emphasized the responsibilities that it must bear for the war and apologized to the people of all countries who suffered under Nazi aggression and atrocities. Austria, which was annexed by Germany, admitted that it "fought on the side of fascism" and bore "unshirkable responsibilities." Hungary, which had been a follower of German fascism, formally apologized to the victims of fascist oppression and begged their forgiveness. Even the neutral state of Switzerland admitted to having committed "callous and barbaric mistakes" in turning away asylum-seeking Jews during those dark years. France, which was among the victorious nations, also stepped out and openly accepted its own historical responsibilities. Last weekend, President Jacques Chirac admitted that France was guilty of taking part in the persecution of Jews during World War II. He said that France "can never fully repay the debts" owed to the dead.

The position of France during World War II was rather special. Half of the country fell into enemy hands soon after the war started, after which two Frances actually existed: "Free France" headed by General de Gaulle stood on the side of the anti-fascist camp, while the puppet Vichy Regime headed by Henri Philippe Petain served as Nazi Germany's accomplice. About 80,000 Jews living in France were arrested and persecuted by the Vichy Regime. It was obviously not easy for France, which was among the victorious nations, to acknowledge this ignoble history. Yet President Chirac

bravely and openly accepted the criminal responsibility in the name of his country. In so doing, France is able to make a clean break with its previous crimes and do justice to the innocent dead.

Thus, all countries in Europe, including the country that started the war, the collaborators, the neutral states, and the victorious nations, made clear their stance and accepted their respective responsibilities.

World War II started by fascism was the biggest war in the history of mankind. Its cruelty has no historical parallel. Fascism incited national hatred and created war hysteria. As many as six million Jews, including women, the elderly, and children, were ruthlessly killed. Thus, in a sense World War II had two sides: On the one hand it was a war between the Allied and the Axis countries. On the other hand, it was a mass massacre of the Jews and other innocent people by the German, Japanese, and Italian fascists and their accomplices.

Mindful of the above facts, when the Military Court of Europe settled scores with fascist crimes, it not only prosecuted the war criminals for their crimes of opposing peace and waging war, but prosecuted them for their crimes against humanity. According to Article Six of the "Constitution of the Military Court of Europe," crimes against humanity refer to the subjection of common people to murder, annihilation, enslavement, banishment, and any other form of inhumane treatment and persecution before and during the war. It was the first time crimes against humanity were defined in an international law. Since questions of responsibilities in World War II had actually been resolved in Europe, the action taken by the European countries concerned in acknowledging their guilt in the persecution of the Jews this year is in fact a further settling of scores of their crimes against humanity. It has been proved by facts that countries in Europe have been able to come to terms with the past only because Germany had boldly accepted its war responsibilities and the European countries concerned had made serious self-examination in real earnest. It is obvious that facing history squarely is the precondition for Europe to move toward reconciliation.

In Asia on the other hand, the settlement of scores with fascist crimes is far from over. The fundamental reason is that in Japan, one of the countries that started the war, there is a force which stubbornly refuses to admit guilt in starting a war of aggression, to say nothing about confessing to a heinous crime against humanity like the Nanjing massacre. Thus, it is the historic responsibility of all countries in Asia, particularly Japan which started the war, to settle scores with fascist crimes in Asia

so as to establish long-term and stable relationships of friendship between different countries.

## Southeast Asia & Pacific

### Naval Formation Leaves Indonesia

*OW2408125595 Beijing XINHUA Domestic Service in Chinese 1628 GMT 21 Aug 95*

[By Reporters Zhao Xinkao (6392 2450 5072) and Liu Ruiping (0491 3843 1627)]

[FBIS Translated Excerpt] Jakarta, 21 Aug (XINHUA) — A Chinese naval formation [bian dui 4882 7130] led by Rear Admiral Wang Yongguo, deputy commander of the Guangzhou Military Region of the Chinese People's Liberation Army and commander of the South Sea Fleet of the Chinese Navy, wound up its visit to Indonesia and left Jakarta's Tanjung Priok port today.

At the invitation of General Tanto Koeswanto, chief of staff of the Indonesian Navy, Wang Yongguo arrived here as a representative of Chinese Navy Commander Admiral Zhang Lianzhong to take part in Indonesia's '95 International Naval Fleet Review. The Chinese naval formation consists of one guided missile destroyer, one guided missile escort vessel, and one supply vessel.

A military band and formation [fang dui 2455 7130] of the Chinese Navy took part in a review in Jakarta called "City March."

This was the first time the Chinese Navy took part in international activities organized by the Indonesian military. [passage omitted]

The Chinese Navy formation arrived in Jakarta on 15 August. During its stay in Indonesia, Rear Admiral Wang Yongguo paid a courtesy visit on General Tanto Koeswanto, chief of staff of the Indonesian Navy. The two sides had a friendly conversation.

### Singapore President Leaves for Jilin

*OW2408134995 Beijing XINHUA in English 1333 GMT 24 Aug 95*

[FBIS Transcribed Text] Hohhot, August 24 (XINHUA) — Visiting Singaporean President Ong Teng Cheong and his party concluded their two-day visit to north China's Inner Mongolia Autonomous Region and left here this afternoon for northeast China's Jilin Province.

Ong and his party arrived at Hailar City, capital of Hulun Buir League, at noon on Wednesday [23 August] and watched Mongolian artistic performances in the afternoon.

This morning Ong and his party visited Manzhouli, a border trade center in the Hulun Buir League, neighboring Russia.

**Li Lanqing, Jiang Chunyun Meet Singapore's Lee**  
*OW2408140995 Beijing XINHUA in English*  
*1355 GMT 24 Aug 95*

[FBIS Transcribed Text] Beijing, August 24 (XINHUA) — Chinese Vice-Premier Li Lanqing and Jiang Chunyun met separately with visiting Singaporean Senior Minister Lee Kuan Yew here today.

Li Lanqing and Lee Kuan Yew voiced their satisfaction over Sino-Singaporean economic and trade co-operation. Both expressed the hope that the two countries would make joint efforts in building up the Suzhou Industrial Park.

On another occasion today, Vice-Premier Jiang Chunyun told Lee that a good autumn harvest is expected, although some areas in China have suffered severe natural disasters earlier this year.

Jiang said that the Chinese government attaches great importance to its agriculture and has adopted a series of measures to intensify agricultural production. "We are confident that China can depend on itself in solving the problem of food supply," Jiang noted.

Jiang and Lee also exchanged ideas on agricultural production.

**Li Tieying Meets Thai Cultural Delegation**  
*OW2408084095 Beijing XINHUA in English*  
*0656 GMT 24 Aug 95*

[FBIS Transcribed Text] Beijing, August 24 (XINHUA) — Chinese State Councillor Li Tieying met with a cultural delegation from Thailand here this afternoon.

The 12-member delegation, headed by Thai Minister of Education Sukhawit Rangsitphon, is here on a visit to China at the invitation of the Chinese Ministry of Culture.

**West Europe**

**Chi Haotian Meets Finnish Defense Officials**  
*OW2408143695 Beijing XINHUA in English*  
*1426 GMT 24 Aug 95*

[FBIS Transcribed Text] Beijing, August 24 (XINHUA) — Chinese State Councillor and National Defense Minister Chi Haotian met with Lt. Gen. Pertti Nykanen, permanent under-secretary of state for defense of Finland, and his party here today.

Chi said that Finland was among the first group of countries to recognize China's sovereignty, and the two

countries have all along maintained sound co-operative relations. There exist only common interests and no conflicts of interest between them, he added.

Nykanen noted that although the two nations are geographically far apart, the peoples of the two countries are closely linked.

He continued that his present visit is his second to China and that he expects that it will help him to understand more about China.

The Finnish guests are here at the invitation of the Defense Ministry.

**German Aid Used in Water Improvement Program**  
*OW2308032695 Beijing XINHUA in English*  
*0245 GMT 23 Aug 95*

[FBIS Transcribed Text] Beijing, August 23 (XINHUA) — A German government aid program has helped more than 400,000 people to have access to clean drinking water in a poverty-stricken mountainous region in east China's Shandong Province.

The project used 119 million yuan provided by Germany and 100 million yuan from China to complete the project in six counties in Linyi City in 1988.

The project has also provided irrigation and water conservation facilities, increasing the amount of irrigated land to more than 4,000 ha.

Part of the funds have also been used for environmental protection. Statistics show that during the past seven years, nearly 300 sq km of area suffering from water and soil erosion and 76 flood-prone rivers in the region have been put under control.

**Germany To Finance Ningxia Forest Project**  
*OW2408122395 Beijing XINHUA in English*  
*1103 GMT 24 Aug 95*

[FBIS Transcribed Text] Beijing, August 24 (XINHUA) — The German government will provide 12 million German marks to help finance a shelter forest project in the Ningxia Hui Autonomous Region in northwest China, the latest issue of the "China Forestry News" reported.

The agreement on the aid was signed between the Chinese Ministry of Foreign Trade and Economic Co-operation and the Kreditanstalt fur Wiederaufbau, the newspaper said.

The aid will be used to finance the planting of 39,000 ha of forests and grasslands on the eastern slopes of the Helan Mountains, an area of 3,689 sq km threatened by encroaching deserts.

A team of German experts will arrive in Ningxia in October to help work out a schedule for the project, said the newspaper, which is published by the Ministry of Forestry.

### Political & Social

#### Eighth NPC Standing Committee Opens Meeting

OW2408120795 Beijing XINHUA Domestic Service  
in Chinese 1102 GMT 23 Aug 95

[By reporters Zhang Sutang (1728 1372 1016) and Wang Jinfu (3076 6855 4395)]

[FBIS Translated Text] Beijing, 23 Aug (XINHUA) — The 15th meeting of the Eighth National People's Congress [NPC] Standing Committee opened at the Great Hall of the People this morning.

Chairman Qiao Shi presided over the meeting.

The meeting first adopted its agenda. According to the agenda, today's meeting first heard the NPC Law Committee's report on the results of deliberation of draft amendments to the law on air pollution and a draft law on physical culture. The 10th and 14th meetings of the NPC Standing Committee had heard explanations and held deliberations regarding the two draft laws. After the meetings, copies were printed and distributed to provincial, autonomous regional, and municipal people's congress standing committees and relevant departments to seek their opinions. In reporting the results of deliberation of the two bills today, Xiang Chunyi and Wang Shuwen, vice chairmen of the NPC Law Committee, said: It is recommended that the current standing committee meeting examine and approve the two draft laws, which have been amended according to the opinions of standing committee members and relevant departments.

Entrusted by a chairmanship meeting, the NPC Standing Committee's Legislative Affairs Commission drafted the NPC Standing Committee's decision on punishing crimes of forging or falsely issuing special value-added tax invoices. Entrusted by the chairmanship meeting, Gu Angran, chairman of the NPC Standing Committee's Legislative Affairs Commission, today provided an explanation regarding the draft law.

The State Council has submitted three draft laws to the current NPC Standing Committee meeting for deliberation. The three draft laws are: A draft law on preventing and treating solid waste pollution, draft amendments to the statistics law, and draft amendments to the law on food hygiene. Entrusted by the State Council, Xie Zhenhua, director of the State Environmental Protection Bureau; State Statistical Bureau Director Zhang Sai; and Public Health Minister Chen Minzhang explained the three draft laws at today's meeting.

Entrusted by the State Council, Vice Foreign Minister Jiang Enzhu provided explanations at today's meeting regarding the Sino-Greek agreement on judicial assistance in civil and criminal affairs and the Sino-Uzbek

consular treaty, and submitted them to the current NPC Standing Committee meeting for deliberation.

Attending the meeting were Vice Chairpersons Tian Jiyun, Wang Hanbin, Ni Zhifu, Chen Muhua, Fei Xiaotong, Sun Qimeng, Lei Jieqiong, Qin Jiwei, Li Ximing, Wang Bingqian, Wang Guangying, Cheng Siyuan, Lu Jiaxi, Buhe, Tomur Dawamat, Li Peiyao, and Wu Jieping, as well as Secretary General Cao Zhi.

State Councilor Chen Junsheng, Supreme People's Court President Ren Jianxin, and Zhang Siqing, procurator general of the Supreme People's Procuratorate, attended the meeting as observers.

#### NPC To Enhance 'Parliamentary Diplomacy'

OW2508102695 Beijing XINHUA in English  
0936 GMT 25 Aug 95

[FBIS Transcribed Text] Beijing, August 25 (XINHUA) — China's National People's Congress (NPC) and its standing committee will further enhance its parliamentary diplomacy so as to promote friendship and mutual understanding with foreign parliaments.

During a meeting on NPC foreign affairs which concluded here today, it was stressed that the experience of the country's people's congresses at all levels in overseas affairs should be reviewed and exchanged to bring the work of the people's congresses throughout China to a new level.

Tian Jiyun, vice-chairman of NPC's standing committee, pointed out at the meeting that parliamentary diplomacy is an indispensable part of China's foreign affairs. NPC's foreign exchanges should be subordinated to and serve the country's overall diplomacy, which is to create a peaceful international environment for China's socialist construction and to serve for the reform and economic development as well as the perfection of the socialist democracy and legal system.

During the recent years, foreign exchanges of NPC and its standing committee has been very active. According to report, NPC has set up relations with parliaments of 138 countries and established bilateral friendly organizations with parliaments of 39 countries. It has also become member to the Inter-Parliamentary Union, Asia-Pacific Parliamentary Forum and Asia Forum of Parliamentarians on Population and Development.

Since the first session of the Eighth NPC, it has received 1,593 people from 158 foreign parliaments and international parliamentary organizations.

**Zhang Junsheng Comments on Deng's Birthday**

**HK2508020195 Hong Kong TA KUNG PAO  
in Chinese 23 Aug 95 p A2**

[Report: "Zhang Junsheng Explains Central Regulation Forbidding Celebration of Leaders' Birthdays"]

[FBIS Translated Text] When asked by reporters why there was no official celebration of Deng Xiaoping's 91st birthday yesterday (22 August), XINHUA Hong Kong Deputy Director Zhang Junsheng said: The central authorities made it a rule in the past that no leaders' birthdays be celebrated. The rule has been followed by all since. He believed that every Chinese would wish Deng Xiaoping a healthy and long life in their hearts, though there was no celebration, because Deng Xiaoping is a leader held in high esteem by the people of the whole country.

Zhang made his remark in response to reporters' relevant inquiry last night, when he attended an award ceremony for a contest of contributions on "My Interpretation of the Basic Law."

Zhang said: "Deng Xiaoping has made great contributions to China's liberation movement and socialist modernization in the past several decades, so the people of the whole country hold him in high esteem. Though there is no celebration of his birthday, yet I believe every Chinese will wish him a healthy and long life from the bottom of their hearts."

He added: "We who work in Hong Kong all the more hope he will come to Hong Kong to have a look in 1997 when Hong Kong returns to Chinese rule."

When asked by reporters about Deng Xiaoping's state of health, Zhang said: His good health has been fairly stable. For an old man of 91, he should be considered to be in fairly good health.

When asked about the implication of Anson Chan Fang On-sang's forthcoming visit to Anhui, Zhang said: This year marks the 50th anniversary of the end of the War of Resistance Against Japan. Anhui Province shot a film of "Fang Zhenwu," who was a famous general in the war. The Anhui office of the Chinese People's Political Consultative Conference invited Fang's relatives in Hong Kong to attend the premiere. Chan Fang On-sang will attend the ceremony as a granddaughter of General Fang.

**Deng Orders Revision of Military 'Shakeup'**

**HK2508042095 Hong Kong EASTERN EXPRESS  
in English 25 Aug 95 p 13**

[By Bruce Gilley: "Deng Slams Brakes on PLA Plans"]

[FBIS Transcribed Text] Patriarch Deng Xiaoping has ordered revisions to a high-level shake-up in the Chinese military and to a second round of missile tests in the Taiwan Strait in a sign of his continued influence over the People's Liberation Army (PLA).

Members of the office of the senior leader, who turned 91 on Tuesday, issued instructions on the handling of the two events after recent consultations with the leadership, mainland sources said yesterday.

In both cases, the revisions served to scale back the extent of the planned moves, seen as part of efforts by the party General Secretary, Jiang Zemin, to secure loyalty from the army, they said.

It was unclear to what extent Deng had personally intervened, but the sources said the revisions had been accepted without argument.

Plans by Jiang to expand his power base by stacking the crucial Central Military Commission in his favour had been rejected by the Deng office.

Jiang wanted to promote the current Minister of Defence, Chi Haotian, and current chief of staff, General Zhang Wannian, to the commission.

They would join two 80-year old Deng appointees, General Liu Huqing and Zhang Zhen, viewed as guardians of the patriarch's interests in the PLA.

"Jiang cannot make such appointments without Deng's approval. In this case, it was not forthcoming," a source familiar with the recent manoeuvring said.

The top-level reshuffle, reported in Tuesday's Eastern Express, has seen the removal of two of three deputy chiefs of staff, General Xu Huizi and General Li Jing.

They are to be replaced by two current assistant chiefs of staff, Major Generals Wu Quanxu and Xiong Guangkai.

A third assistant chief of staff, Major General Kui Fulin, has been sent to the Chengdu military region, which handles Tibet.

The PLA navy commander, General Zhang Lianzhong, and a deputy commander, Lieutenant General Chen Mingshan, are also to be removed from their posts.

The commanders of the Nanjing and Jinan military regions have already been replaced.

The removal of the officers, most of whom are below the official retirement age of 65, is seen as part of Jiang's efforts to install younger, loyal faces in top posts prior to Deng's death.

The shake-up was delayed for six months due to its complexity and controversial nature, sources said.

Signs of residual Dengist influence over the military were also seen in the second round of missile tests and war games in the Taiwan Strait, which end today.

The Deng office had asked the leadership to "carefully conduct" the 10-day drills, which involve joint naval and air force units.

The first drills, last month, involved intercontinental missiles, but the latest round have seen the firing of only short-range tactical missiles, according to the Taiwan defence ministry.

"The Deng office has been among the groups urging a varied display of PLA power rather than just a few big shows," a source said.

General Zhang Wannian, the hardline Jiang protege, warned yesterday that the PLA "will never sit idly when a single inch of territory is split off China".

"The communist-led people's army is a decisive force in resisting aggression and defending national unity," Zhang said at a ceremony in Beijing.

"The PLA resolutely opposes foreign forces' interference in China's internal affairs, infringing on China's territorial integrity and sovereignty, and sabotaging the unity of China and its fundamental interests, and opposes all attempts to create 'Two Chinas' or 'One China, One Taiwan,'" the general said.

The remarks highlighted the hardline approach favoured by Zhang and the defence minister, Chi, which the Deng office has opposed, analysts said.

Taiwan's defence ministry believes that at least four destroyers and 14 F-7 fighters are involved in the latest exercises, being conducted 150 km north of Taiwan.

A series of surface-to-surface, and air-to-surface missiles have been fired during the exercises, including its most advanced member of the Sea Hawk antiship missile, the C-801. [sentence as published]

The Soviet-designed Sea Hawk missiles have never been tested in war and the PLA is known to be keen to test their abilities to improve export sales.

The Chinese military is planning further exercises in the straits from September 10, Taiwan's Independence Morning Post reported yesterday, quoting local intelligence sources.

No further details were immediately available but the Defence Minister, General Chiang Chung-ling, said yesterday that China's military threat to the island would not be intensified as a result of President Lee Teng-hui's decision to run for the presidency.

Reports have indicated the PLA plans more drills in the lead-up to next March's Taiwan presidential election.

#### State Councillor Song Jian Tours Dahingan Ling

SK2508063895 Harbin Heilongjiang People's Radio Network in Mandarin 1000 GMT 24 Aug 95

[FBIS Translated Text] Accompanied by Ma Shujie, vice governor of Heilongjiang Province, Song Jian, state councillor and minister of the State Science and Technology Commission, inspected Dahingan Ling forest area on 20-21 August.

Comrade Song Jian was very much impressed and pleased to see that a naturally destitute ambience remains in Dahingan Ling, a land with treasured potential for development. Dahingan Ling is a treasured land which the people across the country yearn for. During the 1950's and 1960's, people of the older generation in Dahingan Ling developed and built this treasured land, formed a complete forestry development base, and laid a foundation for Dahingan Ling's future protection of natural resources, forestry development, and economic development. Practice shows the policy decision of the CPC Central Committee and the State Council on developing, protecting, and building Dahingan Ling to be wise and correct. Song Jian extended cordial regards and heartfelt thanks on behalf of China's scientific and technological circles to those who developed and built Dahingan Ling.

Comrade Song Jian agreed to Dahingan Ling's strategic ideology of pioneering a new cause; accelerating development; changing two aspects of work; and making breakthroughs in five aspects, such as changing from the traditional planned economy into the socialist market economy and from the unitary forestry economy into a forest region economy, and achieving breakthroughs in protecting, cultivating, and developing forest resources, in developing forest farm industry, in carrying out diversified undertakings and comprehensively developing forestry resources, in developing agriculture and township enterprises, and in developing individual and private sectors of the economy. He hoped that Dahingan Ling would create a new situation and greet the new century during the Ninth Five-Year Plan.

Comrade Song Jian pointed out: Dahingan Ling should expand the degree of opening up at home and abroad, especially at home, and should be determined to actively

absorb domestic enterprises with the strength to develop agriculture, animal husbandry, sideline production, and processing industry.

Comrade Song Jian particularly stressed: To raise the level of forestry, we must rely on scientific and technological progress. At present, the scientific and technical force of Dahingan Ling is still very weak. It is essential to open more academic meetings and spend some money to invite relevant specialists to come here.

At (Songling) forestry bureau, Comrade Song Jian wrote an inscription for the bureau which reads: Rely on scientific and technological progress and regain the prestige of (Songling).

#### **Editorial Discusses Ruling in Harry Wu Case**

*HK2508071795 Hong Kong TA KUNG PAO  
in Chinese 25 Aug 95 p A2*

[Editorial: "A Ruling That Safeguards the Dignity of Chinese Law"]

**[FBIS Translated Text]** The Wuhan City Intermediate People's Court ruled on the case of Wu Hongda yesterday morning. The court found the defendant guilty of spying; illegally obtaining and providing state secrets for overseas institutes, organizations, and persons, and passing himself off as a government worker for deceptive activities. In accordance with the articles of China's Criminal Law, the court sentenced Wu Hongda to 15 years imprisonment and expulsion from China.

That was a ruling based on the facts, with the law as the criterion, and a ruling that safeguards the dignity of Chinese law as well.

Wu Hongda, an American of Chinese origin, on several occasions had sneaked into China's territory to engage in criminal activities. He was apprehended on 19 June this year when he made a fresh attempt to sneak into China's border area, and his case was heard according to the law.

In late July, the related department disclosed that Wu Hongda had confessed his crimes of resorting to evil means and deliberate fabrication to dish up false charges in two television documentaries against China's exporting products made by the inmates of labor camps, and the selling and transplanting of organs from the bodies of dead prisoners. He answered the inquisition of the public security organization with such remarks as "that was a wrong doing," "the actual conditions were not so," "that was a distortion," "this was not true," and "a lie."

On 9 August, Wu Hongda submitted a written confession in his own handwriting to related responsible department of his own accord, saying that he himself "had violated the Chinese law, and naturally should be tried and sanctioned." He cited a series of his own crimes in the confession and added that he "will not be utilized by international anti-Chinese, anti-communist forces from now on."

In a briefing by the chief judge yesterday, he said that in the course of the court's investigation, Wu Hongda admitted his guilt of the charges against him; expressed concurrence with the witnessess, the court's material evidence, documentary evidence, and testimony; and raised no objection. He avowed his guilt and expressed acceptance of the judgment.

According to the law, the defendant might make an appeal to a higher court within 10 days after the ruling; nevertheless, Wu Hongda expressed that he would not make an appeal. This showed that the facts of his offense were clear, with irrefutable evidence.

Article 166 of the Chinese Criminal Law stipulates that any offender who passes himself off as a government worker in order to engage in demagogic will receive a maximum sentence of three years' imprisonment, and a serious case in this category will receive a sentence of imprisonment ranging from three to 10 years. A supplementary clause on penalizing offenses of leaking state secrets reads: Any offender who engages in stealing, spying, buying, and illegitimately providing state secrets for organs, organizations, and persons outside the border will receive a sentence of imprisonment ranging from five to 10 years, and especially serious cases will receive a sentence of more than 10 years' imprisonment, or a life or capital sentence. In Wu Hongda's case, on several occasions between 1991 and 1994, he resorted to "extraordinary methods" acquired through special training to steal or spy on China's state secrets, or went to China under the pretext of visiting friends, travelling, or doing business, or paying some persons to go to China, or accompanying foreign reporters to enter China to take pictures with camouflaged cameras, or he would put on a police uniform, pass himself off as policeman to sneak into a prison to take photos illegitimately. Furthermore, he provided the state secrets stolen and materials photographed for several organs and organizations outside the border. The offender Wu Hongda committed crimes in two categories, and his case was specially serious. According to the aforesaid clauses of the criminal law, he should have been severely penalized. In view of the fact that the defendant's attitude toward admission of guilt has been satisfactory, and that there was the factor of his being utilized in his crimes, he was given a light

sentence, and was expelled last night according to the law.

Chinese people's courts and procuratorates independently exercise their power of holding trials and procuratorial power according to the stipulations of the law, and are free from intervention by administrative organs, social organizations, and individuals. In trying the case of Wu Hongda, the principle of state sovereignty was adhered to, and the stipulation on judicial independence was observed. The ruling has nothing to do with Sino-U.S. relations.

Some people in the United States have raised a hue and cry about Wu Hongda's case, and have purposely linked Wu's case to Sino-U.S. relations in an attempt to add pressure on China and interfere with the Chinese judicial department's meting out a penalty to Wu Hongda. Naturally, that would not do. How can a country that is known to be under the rule of law require its citizens to observe the law of its own country, while allowing them to run roughshod over another country's territory and to pursue criminal activities in outrageous lawlessness? Again, that is another expression of power politics.

Chinese law is the embodiment of the will and sovereignty of the state, and a protective talisman for the 1.2 billion Chinese people. The dignity of Chinese law is not to be tampered with by any country or person. Should anyone defy the law on Chinese territory, he will come to no good. Amid the criminal facts in Wu Hongda's case, there was one count by which he entered Chinese territory, accompanying a woman reporter from a foreign broadcast company, and pursued spying and filming the conditions of a prison with a camouflaged videocamera. This poses a serious issue to news workers, which is that everyone must confine his activities to the scope allowed by the law, and by no means should he pursue the criminal activities of spying for information, and stealing secrets in the capacity of a reporter.

It has been learned that two reporters from a Hong Kong journal "did something they should not have done" while they were covering the guided missile launch exercise in Fujian. When some other reporters asked what these two had actually done, Zhang Junsheng, deputy director of XINHUA News Agency Hong Kong Branch answered: The office of the journal in question and its chief editor should have known better. He asked the reporters who raised the question to ask the office of the journal in question what instructions the journal authorities had given to those two reporters. Although the related conditions have not been made public, it is believed that sensitive news workers can tell the nature of the problem.

Under the pretext of protecting the freedom of the press, the British Hong Kong Government is changing relevant laws and regulations in a big way, while relaxing administrative controls. That is not only an attempt to create trouble for the future special administrative region government, but will also push those news workers who regard freedom of the press as acting on their own free will into the arms of the law. This precisely calls for our vigilance!

#### Official Urges Marxists To Study Western Works

OW2408163595 Beijing XINHUA in English  
1521 GMT 24 Aug 95

[FBIS Transcribed Text] Beijing August 24 (XINHUA) — It is wrong for Marxists to reject all non-Marxist academic works, according to a leading Chinese official.

Hu Sheng, vice-chairman of the Chinese People's Political Consultative Conference and president of the Chinese Academy of Social Sciences, said that Western thoughts should be treated in a scientific manner.

Hu made these remarks here today at a commemorative meeting to mark the centenary of the birth of Jin Yuelin, who was among the first group of Chinese philosophers and logicians to introduce Western philosophy and then combine them with the Chinese academic tradition.

After being awarded a doctorate by Columbia University in the US in 1920, and studying in several other Western countries, Jin came back to China to carry out his research into modern philosophy and logic.

He was among the few Chinese philosophers whose names were familiar to the international community in those days.

Hu Sheng pointed out, "we should respect all the valuable academic achievements made in history and absorb all the useful nutrition of human civilization, so as to enrich and develop Marxism."

Meanwhile, he went on, people should uphold the Marxist stand, viewpoint and method while study the cream of Western philosophy.

Some 150 scholars at home and abroad attended the commemorative meeting, at which the second Jin Yuelin Academic Awards were bestowed on scholars who have made special contributions to the development of the social sciences.

**Official Discusses Role of Papers, Magazines**  
**SK2508063795 Beijing XINHUA Domestic Service**  
*in Chinese 2110 GMT 24 Aug 95*

[Report by Liu Yiqing (0491 4135 3237)]

[FBIS Translated Text] Beijing, 24 August (XINHUA) — Xu Guangchun, deputy head of the Propaganda Department under the CPC Central Committee, stated today: The party's organs and periodicals should be put in an important position in the publishing of newspapers and magazines.

At the national telephone work conference sponsored by the Ministry of Posts and Telecommunications, which was to make arrangements for the subscription of newspapers and periodicals in 1996, Xu Guangchun acknowledged the active role played by newspapers and periodicals in publicizing the party's theories, line, principles, and policies. He also acknowledged the due contributions made by them to the programs of reform, opening up, and economic development, as well as to the work to promote social stability and the construction of a socialist spiritual civilization.

He stated: Over the past few years, on the premise of coordinating with the center of economic work, of expanding the main melody, of continuously upgrading the propaganda level and the quality of publications, of upholding the correct guiding orientation of public opinion, and of serving economic construction, newspapers and periodicals have paid attention to increasing their knowledgeable content and to enhancing their readability; have received much attention from party committees and governments at all levels; have forcefully expedited practical work; and have become indispensable nourishment for the people's mind.

Xu Guangchun pointed out: The role played by newspapers and periodicals cannot be separated from their publishing work. The industrious labor of comrades from the post and telecommunication departments has set up the link between newspapers and periodicals as well as thousands upon thousands of households. The principles and policies of the party and government; the great achievements made by the masses in reform and opening up as well as in socialist modernization; and the various information from at home and abroad have been sent to the masses through the labor of postal personnel. All this has encouraged hundreds of millions of people to unite as one and to build up the country by being of one heart and one mind. Therefore, we contend that publishing is an indispensable and extremely important component in the work of newspapers and periodicals, and possesses a strong political character, a large workload, and a high demand.

Xu Guangchun particularly stressed that in undertaking publishing, it is imperative to seize the focal points. He stated: Publishing newspapers and periodicals is an important link in the party's propaganda work. We should give priority to the focal point of such work, vigorously grasp the implementation of such work, and should put the party's organs and periodicals in an important position. Among the party's organs and periodicals, we should put the central newspapers and periodicals in an important position, among which we should put RENMIN RIBAO in an important position. A good job should be done in vigorously publishing the central important newspapers and periodicals, including RENMIN RIBAO and QIUSHI. We should also successfully undertake publishing and make arrangements for the subscription of newspapers and periodicals including GUANGMING RIBAO, JINGJI RIBAO, JIEFANGJUN BAO, and BAN YUE TAN. We should justly and forcefully undertake publishing and should make arrangements for the subscription of the party's organs and periodicals. We should also earnestly conduct inspections and supervision over work in this regard; should list the work in the managerial targets of propaganda work conducted by propaganda departments under party committees at all levels; and should realistically and successfully grasp the work by regarding it as a focal point of postal work.

At the national telephone work conference, Liu Pingyuan, vice minister of posts and telecommunications, reviewed in an overall manner the work done in 1995 in conducting the publishing work of newspapers and periodicals, and made thorough arrangements for the work in 1996. Also speaking at the telephone work conference were Shao Huaze, director of RENMIN RIBAO, and Gui Xiaofeng, deputy director of the PRC Press and Publication Administration.

Attending the national telephone work conference at the meeting halls of various localities were responsible comrades from the propaganda department of the party committee under various provinces, municipalities, and autonomous regions as well as from the department in charge of press and publication and the post and telecommunication department of various provinces, municipalities, and autonomous regions across the country.

#### **Scientific System of Deng Theory Stressed**

**HK2508031295 Beijing RENMIN RIBAO in Chinese**  
*13 Jul 95 p 9*

[From the "Conscientiously Studying the Selected Works of Deng Xiaoping" column, article by Gong

**Yuzhi (7895 5148 0037): "On Mastering the Scientific System of Theories"]**

[FBIS Translated Text] In learning and studying Comrade Deng Xiaoping's theory of building socialism with Chinese characteristics, it is necessary to master the gist of the ideological line of emancipating the mind and seeking truth from facts, and to master the scientific system of the theory in light of the reality surrounding the basic theoretical questions of what socialism is and how it should be built.

**Why do we put forward the requirement of mastering the scientific system of theories? How should this requirement be understood?**

**As I see it, this is primarily a political requirement. The stipulation of this requirement has its aim and will point the way.**

#### **The Standard for Forming Theories**

**The first aim is to provide answers to the following questions: Has Deng Xiaoping established a theory and a scientific system through his practice and writings on building socialism with Chinese characteristics?**

This question has also been raised in the past with regard to Comrade Mao Zedong's practice and writings.

During the Jiangxi period, dogmatists criticized Comrade Mao Zedong as advocating narrow empiricism. In essence, such criticism refused to admit that Comrade Mao Zedong's practice and writings had started to form a theory. They disagreed with Mao Zedong's theory. During the period of the Yanan rectification, Comrade Mao Zedong pointed out in particular the need to distinguish between theories and theoreticians. Through rectification, summing up the experience gained and lessons learned from the history of the Chinese revolution, and looking back over the great victories won since the War of Resistance Against Japanese Aggression under the leadership of the party Central Committee with Comrade Mao Zedong at the core, the whole party came to the following consensus: Comrade Mao Zedong's practice and writings have indeed formed a theory, a great creative theory, because his practice and writings have for the first time systematically and correctly answered a series of fundamental issues regarding the Chinese revolution. What are these fundamental issues? In *The Chinese Revolution and the Chinese Communist Party*, the only book of a textbook nature he wrote, Comrade Mao Zedong summed up some of the fundamental issues as follows: The nature of modern Chinese society and the targets, tasks, driving force, nature, and the future of the Chinese revolution. In his "Foreword to 'The Communist,'" he summed up the following ques-

tions from a different angle: "The questions of the united front, armed struggle, and party building are the three fundamental issues confronting our party in the Chinese revolution." In addition to these, there are fundamental issues such as the protracted nature of the Chinese revolution and its uneven development. As it has answered these fundamental issues concerning the Chinese revolution, we say that the Chinese revolution has formed its own theory, which the CPC calls Mao Zedong Thought.

**From this, a standard has been developed, and this is the standard for theory formation: If the fundamental issues in an area under study have been systematically and correctly answered, if the answers have been answered systematically rather than piecemeal, and if a series of fundamental issues rather than individual questions have been answered, we must admit that a theory for this particular area has been formed.** This is the gist of the matter. It does not matter whether the answers are given in the form of lengthy theoretical works or a pamphlet, or even in the form of a resolution, report, or speech. The form of expression is determined by historical conditions and personal preference. The forms of theoretical expression used by Marx and Engels were different from that used by Lenin. The form of theoretical expression used by Lenin prior to the October Revolution was also different from that he used after yielding power. Mao Zedong also expressed his ideas very differently during his Yanan days and after the founding of the People's Republic. In judging whether a theory has been formed, we should look at the essence rather than the form of expression.

**The answer is very clear if we apply this standard in judging whether or not the idea of building socialism with Chinese characteristics has formed a theory.** The English title of the little book published by Comrade Deng Xiaoping in 1978 under the Chinese title *Building Socialism with Chinese Characteristics* was *Fundamental Issues in Present-Day China*. What fundamental issues in present-day China did Comrade Xiaoping answer in his practice and writings? The report of the 14th National Party Congress summed up these fundamental issues as follows: The road of developing socialism, the driving force in developing socialism, the external conditions for developing socialism, political guarantees for developing socialism, strategies for developing socialism, the force that leads to developing socialism and the force upon which it relies, and the question of the motherland's peaceful reunification under the principle of "one country, two systems" — nine issues altogether. **As this is the first time fundamental issues regarding the development of socialism in China have been systematically and roughly an-**

**swe red, we say that the idea of building socialism with Chinese characteristics has formed a theory of its own. The CPC calls it Comrade Deng Xiaoping's theory of building socialism with Chinese characteristics.**

Here, "the first time" suggests the creativeness of this theory, while "systematically" answering "a series of fundamental issues" suggests the comprehensive nature of this theory, that this theory has formed a scientific system. In saying that they are "roughly" answered, it means that this theory needs to be further enriched and developed, that it has yet to reach maturity. In his remarks during his inspection tour of south China, Comrade Xiaoping emphasized the following point: On the one hand, we have clear-cut principles and policies for economic, political, scientific and technological, educational, cultural, military and diplomatic work, and have precise expressions for these matters. Efforts must be made to maintain long-term stability for these basic policies. On the other hand, it may take another 30 years before we can form a more mature and formalized system under which principles and policies also will become more formalized. These remarks dialectically expounded what was meant by the maturity of our principles, policies, and system. We should apply this dialectical approach in viewing the maturity of our theory too.

The personal characteristics of Comrade Deng Xiaoping's form of theoretical expression are described by Comrade Jiang Zemin in his speech at the report meeting on studying Volume Three of the *Selected Works of Deng Xiaoping* as follows: "His style of writing is plain and simple. There are no empty words. There is profound ideological content in his simple and concise discussions." Marxism is a plain and simple theory; it requires plain and simple language.

#### **The All-Round and Holistic Nature of Theory**

**The second aim in putting forward the idea of "mastering the scientific system of theories" is, I think, to guide people to understand in an all-round way how this theory scientifically explains the intrinsic nature of socialism, systematically resolves the basic questions of how China should build socialism, and the series of fundamental viewpoints thus formed. We must accurately understand these fundamental viewpoints, and master in an all-round way the intrinsic links and dialectical unity between them.** We must pay attention to the need to overcome one-sidedness, and must not arbitrarily emphasize in isolation certain aspects and viewpoints that have been expounded in full, while overlooking other aspects and viewpoints that are closely related to them. For example, since economic

construction is our central task, we must not choose several central tasks just because we also emphasize the importance of other tasks (although they are really important). The importance of other tasks must be understood and translated into reality through the central task of economic construction. When talking about two basic points, we must not overlook either point, and must not cut the two basic points apart and set them against each other. Rather we must unify them around the single central task and around the practice of building socialism with Chinese characteristics. When talking about doing two types of work simultaneously, we must not stress one at the expense of the other. When talking about upholding and developing Marxism, and upholding and improving the party's leadership, we must not emphasize upholding at the expense of development and improvement, or emphasize development and improvement at the expense of upholding, and so on.

**Still another aim is, I think, to emphasize that the theory of building socialism with Chinese characteristics is an integral whole, and that expositions on particular issues are but parts of this whole. It is necessary to view the various parts of this theory in their totality.** In other words, it is necessary, first of all, to stress the need to learn and study Deng Xiaoping's theory of building socialism with Chinese characteristics in its totality, to master the spiritual essence and scientific system of this system in its totality, and on this basis, to talk about making special efforts to learn and study those aspects that have a direct bearing on our work. The first and second questions often arise when we use Deng Xiaoping's theory of building socialism with Chinese characteristics to guide our work. We must first learn and study the spiritual essence and spiritual system of this theory in its totality before learning and studying Comrade Xiaoping's theory and expositions on particular aspects. We cannot refuse to pay attention to the first question, and concentrate only on the second; we must attach importance to both. Only in this way can we master the part that we deal with from the perspective of the whole.

Naturally, these are requirements of political orientation. They are not specific forms for the logical development of the scientific system of this theory.

#### **Originating From, and Expanding on the Nine Points**

The scientific system of Deng Xiaoping's theory of building socialism with Chinese characteristics is an objective existence. It takes shape from the great practice of building socialism with Chinese characteristics over the past 10 years and more, and finds expression in Comrade Xiaoping's entire volume of works. Working

in accordance with Comrade Xiaoping's original work and with his creative activity in tackling the basic problems of present-day China, making strategic decisions and drawing theoretical summaries, the party Central Committee and theoretical circles have done a lot of work in systematically sorting out and expounding the main points of the scientific system of this theory. The report of the 14th national party congress made a summary of this. In my opinion, existing expositions on the scientific system of this theory all have the nine points summed up in the report of the 14th national party congress as their foundation and basis. They originate from, and expand on these nine points.

In saying that they take the nine points as their foundation and basis, what I mean is that they follow the trend of thought that constitutes the nine points, that is, the trend of thought for resolving the "series of fundamental issues" in the development of socialism in China.

The CPC Central Committee printed and circulated the *Outline of Study of Comrade Deng Xiaoping's Theory of Building Socialism with Chinese Characteristics* [hereafter referred to as the *Outline*] drawn up by the Central Propaganda Department. Part two of this (the main part) expounds on "the main content of this scientific system." In my understanding, if there is "the main content," there also must be other things in its content. The main content is there, and needs to be enriched and developed. Other parts of the content also are being extended and unfolded. The *Outline* divides this main content into 16 chapters, which strive to give comprehensive and accurate expression to the ideas reflected in Comrade Xiaoping's original work. They also strive to give comprehensive and accurate expression to the summaries made by the 14th National Party Congress and the party Central Committee on this theory. Instead of altering the nine points, these 16 chapters have only regrouped them into 16 topics. Some points are discussed in one chapter, others in two or more chapters. For example, the first of the nine points — the question of "the road of development of socialism" — is discussed in Chapters One and Two of the *Outline*. The question of "the driving force of developing socialism" discussed in the nine points, which actually addresses four issues — "reform is also a revolution," the aim of the reform of the economic system is the socialist market economy, the aim of the reform of the political system is socialist democratic politics, and the need to promote socialist ideological and cultural progress in tandem with the reform and development of the economy and politics — is discussed in four chapters in the *Outline*. The question of "the external conditions for building socialism," namely, the opening of the country to the outside world and diplomatic strategies, is

discussed in two of the *Outline* chapters. The question of "the force that leads the development of socialism and upon which it relies" — which actually addresses the three issues of party leadership and party building; reliance on the workers, peasants, and intellectuals and the united front; and the People's Army under the leadership of the party — is discussed in three chapters in the *Outline*. Thus, the nine points are expanded into 16 chapters. Although the *Outline* has been expanded and differs from the nine points in the order and grouping of points, it adheres fairly strictly to the nine points, and takes them as its foundation and basis.

**Are there too many ideas?** The fact is that the 16 chapters and nine points both have their logical links. As I see it, the first three chapters form the **gist and foundation of this theory** (the ideological line of emancipating the mind and seeking truth from facts is the **gist and soul of this theory**, and is the **foundation of this theory on questions of philosophy and epistemology**; the theory of the nature of socialism is the **foundation of this theory on questions of scientific socialism**; while the theory of the primary stage of socialism is the **foundation of this theory in the judgment of the basic conditions of China**). The two chapters that follow are about the theory of taking socialist modernization and economic construction as the central task. The next three chapters deal with the theory of the basic point of socialist reform and opening up, while the five subsequent chapters address the other basic point, that is, the political and ideological guarantees of socialism. The last three chapters discuss the theory of the force that leads socialism and upon which it relies. Thus, the main content of the whole theory is divided into five parts. The nine points also can be analyzed in the same way. Such logic also fits in with the structure of the party's basic line.

The 16 chapters pay attention to the logical links between chapters, and to the logical development of the 16 chapters as a whole. They also pay attention to the logical structure in each chapter. Each chapter has as its heading an important formulation put forward in Comrade Xiaoping's works, and has as its subhead the theory of particular fundamental issues of socialism under discussion. The most important of Comrade Xiaoping's relevant discussions are quoted in each chapter. On some of the key theoretical questions, accounts of the major course of Comrade Xiaoping's ideological development on the questions are given. They also analyze the historical background of the creation of these theories, such as what explorations, contributions and mistakes our party has made on these questions. Some of them even analyze the historical

background from the time of Marx or the Soviet Union. In other words, the theoretical expositions pay attention to the historical development of the theory. Of course, they are all very simple and concise. These expositions will be of great help, and will throw light on our understanding and mastering of the main content of the scientific system of Comrade Deng Xiaoping's theory of building socialism with Chinese characteristics, as well as on the origin, background, creation, and contributions of its main theoretical viewpoints.

In short, Comrade Deng Xiaoping's theory of building socialism with Chinese characteristics has indeed formed a scientific system. As long as we conscientiously study Volumes Two and Three of the *Selected Works of Deng Xiaoping* and the important documents of the Central Committee since the Third Plenary Session of the 11th CPC Central Committee, and as long as we conscientiously ponder and try to understand these in relation to history and to reality, we will not have any difficulty coming to this consensus. In saying that it has formed a scientific system, what we mean essentially and basically is that it has answered a series of fundamental issues concerning the development of socialism in China. In other words, it has put forward a series of basic viewpoints for observing, analyzing, and resolving these fundamental issues, and there are internal links between these basic viewpoints. As for how to express this scientific system logically in expositions, teaching and propaganda, theoreticians already have achieved a basic consensus, and have made all kinds of probes, each with its own characteristics. Comrade Deng Xiaoping's theory of building socialism with Chinese characteristics is still developing, and so is the logical expression of the scientific system of this theory. Through studying and probing the rich content of this theory from different aspects and using different approaches, the logical expression of the scientific system of this theory also will continue to deepen, become more comprehensive, and develop still further.

**Commentary Dismisses 'China Threat' 'Fantasies'**  
**HK2508021395 Beijing CHINA DAILY in English**  
**25 Aug 95 p 4**

[**'CHINA DAILY Commentary': 'China Threat' Fantasy**]

[**FBIS Transcribed Text**] Two noted magazines—TIME in the US and THE ECONOMIST in Britain — both clamour for the containment of China.

Their publication of these wild utterances took place simultaneously with a proposal to form an "anti-China club" in the Asia-Pacific region. This may not be a mere coincidence.

Such fantasies about the "China threat" seem to be based on China's current fast-growing economy.

But as China has repeatedly affirmed, it will never seek hegemony no matter how strong its economy will grow.

Double-digit growth in the past few years did upgrade China's comprehensive national strength. But to rank it as one of the world's leading economies, as some in the West do, is obviously an exaggeration with ulterior purposes.

As contemporary history can bear witness, China has consistently been a responsible member of the international community committed to world peace. More than a century of national humiliation under foreign aggression has brought home to the Chinese people the indispensability of peace.

The Five Principles of Peaceful Co-existence, as proposed by China, fully bear out China's guidelines for relations with other countries.

Rumours are being spread that China is rapidly building up its military strength which, it is claimed, constitutes a menace to its Asian neighbours.

The fact is that China always keeps its military power strictly within the limits of self-defence. The People's Republic made nuclear weapons in its early years. However, the aim was to torpedo the nuclear monopoly and blackmail of the superpowers.

The Chinese Government has repeatedly assured the world it will never be the first to use nuclear weapons under any circumstances and will never use or threaten to use them against non-nuclear countries and regions. Moreover, it strongly calls on all nuclear powers to completely ban and destroy nuclear weapons.

China cut its military personnel by 1 million in the mid-1980s. So many of the nation's defence factories have been turned into civilian production that their products now account for 70 per cent of the total output of defence industries.

China's defence spending dropped from 4.68 per cent of the gross domestic product in 1978 to 1.26 per cent in 1994. Its per capita and per soldier military expenditures are far below those of many developing countries and regions, not to mention the world's major military powers.

The defence budget, as well as per capita and per soldier defence spending, of the United States were respectively 45 and 204 and 82 times those of China, according to data published in 1994 by the London International Institute for Strategic Studies.

Plainly, to label China as a source of tensions is totally groundless.

Rather than constitute a menace to the international community, a booming Chinese economy will only serve to promote world peace and development, and to deter hegemonist expansion. Economic growth in the developing world will boost independence from big powers.

A stronger China will mean a stronger voice on the side of peace-loving nations. This is what those who allege a "China threat" really want to "contain."

There does exist a threat to world peace and stability. But it comes from those who aspire toward hegemonist influence in the world. It is their manoeuvres in handling international affairs that call for containment.

Behind playing up China's economic might and portraying China as a formidable power, the real intention is to sow the seeds of discord between China and its Asian neighbours.

The peaceful environment in the past few decades is a major factor for today's vibrant economies in the East Asian region. Nations in this region should cherish all the achievements and unite to safeguard them.

No one will benefit from confrontation over any issue except external string-pullers behind the scenes.

Even some so-called containment strategists recognize it is hardly feasible to contain China. The fact is that nothing could divert China from its set course of peaceful development.

All attempts to contain China are bound to fail. No politician with insight should follow such a path.

#### Call for Development of Spiritual Civilization

952CM0326A Beijing SIXIANG ZHENGZHI  
GONGZUO YANJIU [RESEARCH IN  
IDEOLOGICAL-POLITICAL WORK] in Chinese  
8 May 95 No 5, pp 28-29

[Article by Liu Baohai and Yang Kaimin: "Spiritual Civilization Should Strive for Depth, Purity, and Dynamics"]

[FBIS Translated Text] In recent years, the party's Central Committee has placed much emphasis on spiritual civilization; however, in actuality, they are often "strict on one hand and lenient on the other hand." The actual cause of this has not been examined and to a certain extent nominal and false efforts have been made. There is also the problem of "superficial, mixed, and scattered" implementation. This has made the work appear pale and worn out. If we are to make spiritual civilization

become a truly good quality, we must put time and effort into the following aspects.

1. Make time and effort to raise the peoples' quality of reason and fundamental consciousness so that it will be dominant. China's socialist spiritual civilization of substance is of two aspects, namely ideological morality and educational scientific culture. In general, the former is the Marxism world view and scientific theory, that is, the revolutionary ideal of morality and discipline. The latter mainly consists of the development of such cultural establishments as educational science, literary arts, information publishing, broadcast TV, health and physical training, libraries and museums, and raising the level of knowledge of the broad masses. It serves to show that socialist spiritual civilization is a fairly large systematic project. A "general spirit" permeates through among the sub-systems and in each segment and part, from design and adjustment to control and operation. This is what was pointed out in the "CPC Central Committee Resolution on the Guiding Policy on Socialist Spiritual Civilization": "Persisting on having Marxism and Mao Zedong's thoughts as the guide is the basis of China's industrial modernization and the basis of socialist spiritual civilization." At a nationwide propaganda ideology working meeting, Comrade Jiang Zemin put forth four aspects of actions and gave first priority to "arming people with scientific theory." As can be seen from the substance of spiritual civilization, scientific theory belongs to the profound level of spiritual achievement. Once it forms, a person not only possesses profound knowledge in a general high degree, but he also possesses a very strong authoritativeness and general directiveness. This has a broad and lasting effect on the ideology and acts of the vast masses. The strength of knowledge capacity, whether or not ideological concept is correct, the degree of political consciousness and moral standards, and enhancement and development of educational science culture is restricted to a very great extent by certain theoretical concepts and accomplishments. Theory does not have a constant effect on the direction and results of the entire spiritual civilization. The superficiality, faults, and confusion in theory inevitably leads to the peoples' ideological concept and a lost and confused faith. In particular, along with the deep growth of revolution, problems with a stagnate theory seem to be increasingly outstanding, and the peoples' immunity in thought and capacity to differentiate in theory really makes people feel ill at ease. We therefore must vigorously strengthen the party's theory and fully bring into play its basic role in spiritual civilization, guiding, and enlightening. We must put forth effort in enhancing the fundamental consciousness of the people. We believe we currently should not overlook the theoretical education of the masses. China has had a tradition of the

masses studying theory. It is truly brought into play in moulding peoples' values, strengthening their beliefs, purifying the general mood of society, and creating an atmosphere in society of forging onward and upward. Today, the actual state of peoples' ideology really makes people pessimistic and their capacity for actually accepting it must be strengthened. Therefore, suitably enhancing the theoretic substance of the nation's people is not only a must but is also doable. The "Essentials of Implementing Patriotic Education" clearly puts forth: "Patriotic education must be guided by the fundamental line of the party and Comrade Deng Xiaoping's theory of socialism with distinct Chinese characteristics." Patriotic education is actually a mass spiritual civilization action. It does not overlook theory's fundamental position and its guide and support role. Take patriotic education as an example. Audio-visual emotional education such as raising the national flag, singing the national anthem, hanging the national emblem, and watching "hundreds of patriotic films" is very necessary. But at the same time we must stress raising the quality of a person's reason. We must strengthen this sense of patriotism that is set off and prevent it from being just a passing thing that wanes after leaving the scene. The emotions must be rational and supportive. Sentimental knowledge must be raised to rational knowledge. Why is the film "Jiao Yulu" so moving that people want to talk about it after they see it? The top reason is it helps people better "know the whys." Otherwise, the momentary effect of the "lively performance, stirred by watching it, then afterward feeling nothing" would easily emerge. The status of theory and enhancing the quality of a person's reason in a socialist spiritual civilization should not be casually lowered so much so that it is canceled. What needs explanation is that depth is relative. Except for the substance of pure theory, normally most political inculcation education compared to "the red flag waving a deafening sound of gongs and drums" and "love to see and hear" all are deep acts of spiritual civilization and demand prompt strengthening. The principle regulation is "having patriotic education that runs through all ideological political education serve as the basic project of socialist spiritual civilization and as the theme for China's society. It should be unwavering and untiringly grasped over a long period" in the "Essentials of Implementing Patriotic Education." This ideology should be stated clearly and unequivocally.

2. Put time and effort into purity with practical effects the judge. So-called purity does not belong in the category of socialist spiritual civilization, so much as that it is a thing that is exactly the opposite of it. You cannot say it is socialist spiritual civilization. There is a fairly easy distinguishing line on such aspects as ideological morality and educational science. Currently, there

mainly appears to be some good and bad mixed up in cultural aspects. The intension and extension of culture in set pertinent documents is, of course, indisputable. Certain cultural recreational items that do not involve cultural original extensions and several introduced from capitalist countries have touched off discussions. For example, can such things as karaoke lounges, nightclubs, bars, recreation rooms, and poolrooms belong to socialist spiritual civilization? From asking relevant persons, the answer is certainly. However, according to practical principles, the authors have misgivings that are difficult to dispel. Why do most parents and elders have an opinion on the above-mentioned "lounges, rooms, and clubs"? In the press, such appeals and types of reports as "A Slot Machine - A Murder Machine," "Poolrooms Ruined His Studies," and "Nightclubs Plunged Her Into An Abyss" were not few and isolated. One report titled "Bidding Farewell To 'Two Rooms One Hall'" presented a school in a certain area which was faced with a bitter cost and which organized school students to collectively make a pledge: Bid farewell to recreation rooms, poolrooms, and video rooms! This was by no means a protest against spiritual civilization. There are also those so-called "Spiritual Civilization Arenas" in which there is rampant prostitution and the "three accompany" phenomenon [refers to being accompanied by a prostitute, drinking with the prostitute, and engaging in sex with the prostitute]. There are far more that exceed the scope of civilization. If you say "lounges, rooms, and clubs" themselves belong in the socialist spiritual civilization arena, then there should be ample knowledge and effective restrictions on its fairly strong man-made characteristics which would prevent it from going bad. If slot machines are for gambling, how can you say they are spiritual civilization? If nightclubs have become havens for pornographic activity, they trample on and pollute socialist spiritual civilization. You will not know when the manner of relying on the brotherhood at the bar to "resolve problems" will enter the ranks of ideological political work, so much so that it serves as the experience in order to introduce. This makes it difficult for people to understand. In proportion to the spiritual civilization of "implementing items," we should apply science, design equitably, stress the main points and the entire results. What we should not do is promote the key points that do not need promoting and block those items that cannot be blocked. Important substance like ideology, theory, morality, and the legal system often go through the motions in name but not in reality. However, all types of "lounges, rooms, and clubs" items are what is being done right; more are being built and they are all over the place. In actuality, in cultural undertakings where there are scenes of debauchery and wild singing and dancing, you cannot set up schools and children are

deprived of an education. This type of social problem is both an overall problem in spiritual civilization items and the party's problem of the right to take an initiative in spiritual civilization. Even more, there is the cause of the mood in society and aspect of social guidance.

3. Put time and effort into dynamics with the party's leadership and unified coordination as assurance. Depth, purity, and dynamics, in themselves are interrelated, mutually restrictive, and interdependent. The problems of depth and purity have been solved; the dynamics aspect then should be evident and fundamentally changed. We have a great superiority, namely we are a socialist country and spiritual civilization is carried out under a unified leadership. This provides the organizational assurances for strengthening the dynamics of spiritual civilization. First, we should strengthen design and reduce blindness in action of spiritual civilization under the party's unified leadership. One, we should use a systematic viewpoint to guide spiritual civilization and achieve it throughout the nation. "Spiritual civilization stresses construction" should be spoken in terms of "stressing design" and "stressing benefits." Only if the "design is good and science is applied can the layout be rational, the scale appropriate, on the same frequency, and forces pooled. Two, work should be done with initiative and forethought. The slogans for measures continually put forth should not be pressed by problems, but should be laid down in advance by relying on the political sense of responsibility of the degree and foresightedness of science and they should be dynamically forceful.

Second, we should select a main direction of attack and put time and effort into being "proficient and effective." What is important is to manage quantity and quality well and the relationship between dissemination and enhancement. Spiritual civilization also is not something where bigger is better. "Stressing construction" differs from randomly implementing items where one expands at will the "scope of capital construction." But it is whether one can "lead an ox by the nose" and come to grips with the heart of the matter. China's spiritual civilization should primarily be elegant; of high quality; where theory is strong in guidance; and ample effort is employed in aspects of ideology, morality, and educational science. [This is what] creates dynamics. Next, it should be done earnestly and should have the ability to truly counteract the bad. Nominal and false effort in spiritual civilization are obvious and easy to see. It is not a problem of whether or not it can be distinguished, but is a problem of whether or not there is the ability to counteract it. In particular, the harm of the formation of this nominal and false effort is much greater than the harm of the unconcerned slowdown. It wastes the peoples' efforts, harms the

party's prestige, and leaves a legacy of trouble in socialist spiritual civilization. In fact, it is an evil effort. What is even more intolerable is that this false, nominal, and evil effort frequently is in the key segments and substances of vital parts of spiritual civilization. If major substances of spiritual civilization are voided, weakened, and vulgarized, and it is very difficult for the entire spiritual civilization to develop soundly, then what can be said about the dynamics?

In summary, current spiritual civilization should raise to the order of the day the controlling of superficiality, mixed, and scattered, and the false should be swept away. Its necessity and urgency is not second to "implementing items." In spiritual civilization, only if realistic concrete matters are dealt with and time and effort is put into depth, purity, and dynamics can we fundamentally resolve the problem of being "strict on one hand and lenient on the other hand."

#### SEC Urges Strict Enforcement of Education Law

OW2508090895 Beijing XINHUA in English  
0841 GMT 25 Aug 95

[FBIS Transcribed Text] Beijing, August 25 (XINHUA) — The State Education Commission (SEC) is calling for stricter enforcement of the Education Law which will take effect September 1.

The law, which is the first of its kind in China, will help ensure educational reforms, which should remain a principal task of local governments, according to a statement issued by the SEC here today.

The statement noted that hotly-debated issues such as enacting further educational reforms, submitting suggestions for an education budget, and setting up a system to deal with teachers' salaries, should be dealt with according to the law.

The SEC requested that tough methods of school management be introduced. "Those schools will not be allowed which are run for profit," it said.

According to the statement, government departments should work out practicable regulations in line with the law, and, "Education departments ought to assist legislative bodies in enforcing the law. Major violations should be revealed to the public, and a means of reporting violations should be created."

Passage of the law at the third session of the Eighth National People's Congress in March this year signalled for the first time legal backing by the state for priority of education.

**Report on Leaders' Activities 18-24 Aug  
OW2508103195**

[FBIS Editorial Report] PRC media monitored from 18-24 August carried the following reports on PRC central leadership activities. The source is noted in parentheses after each report.

**Wu Bangguo Helps Xinjiang Harvester Plant —** Vice Premiers Wu Bangguo and Zou Jiahua recently instructed various departments to financially support the Xinjiang United Harvester Plant that produces "Xinjiang-2" harvesters to increase its production of harvesters, which are in short supply. It has been learned that at present, more funds and loans have been allocated to the plant. (Urumqi XINJIANG RIBAO in Chinese 13 Aug 95 p 1)

**Jiang Chunyun Hears Sichuan Garze Anti-Flood Report —** Jiang Chunyun, member of the CPC Central Committee Political Bureau and Secretariat, and State Council vice premier, recently met with a Sichuan delegation in Beijing and heard reports on its anti-flood work in Sichuan Garze Autonomous Prefecture. Jiang Chunyun commended people of the Garze Autonomous Prefecture for their anti-flood efforts. (Chengdu Sichuan Television Network in Mandarin 1145 GMT 22 Aug 95)

**Zhang Zhen Inspects Inner Mongolia —** From 17-23 August, accompanied by General Li Laizhu, commander of the Beijing Military Region, General Zhang Zhen, vice Central Military Commission chairman, inspected border guards in Inner Mongolia. He urged them to properly safeguard borders in north China. (Beijing Central People's Radio Network in Mandarin 2230 GMT 23 Aug 95)

**Zhang Wannian Meets PLA Athletic Team —** On 23 August, Zhang Wannian, Yu Yongbo, and Fu Quanyou, leaders of the Central Military Commission, and the General Staff Department, General Political Department, and General Logistics Department of the People's Liberation Army [PLA], met in Beijing with a PLA athletic team that was leaving for the upcoming World Military Games to be held in Rome, Italy from 5-16 September. (Beijing Central People's Radio Network in Mandarin 2230 GMT 23 Aug 95)

**Jiang Zemin Inscribes for Television Series —** A television series on historic episodes during the Chinese War of Resistance Against Japan, entitled: the "Mainstays [zhong liu di zhu 0022 3177 4272 2691]," was recently completed. Jiang Zemin, CPC Central Committee general secretary, state president, and Central Military Commission chairman, wrote its title. Before the series was finished, a television production group interviewed Liu Huaqing and Zhang Zhen, vice Central

Military Commission chairmen, in Beijing on 30 June. Liu Huaqing and Zhang Zhen gave their views on how the series should be filmed. (Beijing XINHUA Domestic Service in Chinese 0930 GMT 24 Aug 95)

**Li Tieying Attends Memorial Service —** On 24 August, a memorial service was held in Beijing to commemorate Wang Shiyuan, vice State Economic Restructuring Commission minister, who died on 15 August at age 53. Li Tieying, CPC Central Committee Political Bureau member and state councillor, attended the ceremony and sent a wreath. Party and state leaders who also sent wreaths were Zhu Rongji, Li Lanqing, Wu Bangguo, Wen Jiabao, Song Jian, Chen Junsheng, and Luo Gan. (Beijing XINHUA Domestic Service in Chinese 1311 GMT 24 Aug 95)

**Jiang Zemin Incribes for History Book —** On 24 August, an inauguration was held in Beijing to mark the publication of a book, the *Historic Records of the Chinese People's War of Resistance Against Japan*. Central Military Commission leaders Jiang Zemin, Liu Huaqing, Zhang Zhen, and Chi Haotian wrote inscriptions for the book. Jiang Zemin inscribed: "The historic accomplishments and glorious traditions attained during the war of resistance against Japan, and the national righteousness and patriotic spirit embodied during the period will be everlasting." Liu Huaqing inscribed: "It invigorated the national spirit and constructed a historic monument." Zhang Zhen inscribed: "The great victory of the Chinese people's war of resistance against Japan will be ever remembered in historic annals." Song Ping, Song Renqiong, Peng Chong, and Deng Liqun attended the meeting. Zhang Wannian, Central Military Commission member and PLA General Staff Department chief, spoke at the meeting. (Beijing XINHUA Domestic Service in Chinese 1512 GMT 24 Aug 95)

**Li Lanqing Greets Yantai Customs Anniversary —** On 24 August, Yantai Customs marked its 50th founding anniversary. Vice Premier Li Lanqing sent his greetings, urging it keep up its good work in the new era. (Beijing Central People's Radio Network in Mandarin 2230 GMT 24 Aug 95)

**Huang Ju Guards Against Approaching Tropical Storm —** This year's tropical storm no. 7 is approaching Shanghai. Huang Ju, secretary of the municipal party committee, was very concerned about it. On 24 August, he instructed his office to phone the Municipal Flood Control Headquarters to find out about the situation. (Shanghai People's Radio Network in Mandarin 2300 GMT 24 Aug 95)

## Political & Social

### Article Reviews Achievements of Space Program

HK2508070895 Hong Kong WEN WEI PO in Chinese  
24 Jun 95 p A4

[Special article" by Zhu Feng (2612 2800), originally carried in Beijing's TUANJIE BAO: "Secrets of China's Space Program Revealed"]

[FBIS Translated Text] The greatest of mankind's great technological achievements this century is probably "flying in space." The travel of astronauts into the vast outer space has initiated the mammoth project of human exploration of the universe.

At the end of the 1950's, the Soviet Union launched its first Sputnik and raised the curtain on space travel by mankind. In 1961, for the first time in human history, the Soviet cosmonaut Gagarin made a spaceflight aboard the spaceship Vostok 1.

On 20 July 1969, the United States' Apollo space craft reached the moon for the first time, after which all kinds of space probes started to roam the solar system.

### Early Experiments on Space Stations

However, that is not beyond the reach of China's young aerospace industry. Though China's aerospace industry was a late starter compared to the United States, the Soviet Union, and Europe, it is in a leading position in some most sophisticated technological areas. According to Wang Yingkui [3769 5391 7608], an aerospace industry expert, China is implementing a space program and will build a spaceship within 10 years. About three or four years after that, a spaceship made by China with a carrying capacity of three astronauts will be ready for launching. Mr. Wang claimed that China has mastered advanced space technology for quite some time, and it now has more than 100 qualified astronaut candidates.

Authoritative sources from the China Space Technology Research Academy revealed that the 16th retrievable satellite launched on 3 July 1994 was a huge success. Among many achievements, the experiment on the space in-orbit attitude capture technology generated important data. This was a prior period experiment in China's space station research program, significant to the development of manned spaceflight. The sources said: In recent years, with the launching of various kinds of high- and low-orbit satellites and all kinds of spacecraft, China's space-earth round trip transport system has become more mature. Technically speaking, China now already has the capability to send spacecraft to the moon. Aerospace experts predict that China's dream of exploring the moon will come true within this century.

### First Spaceflight Passengers: Puppies

So far, China's manned spaceflight has not yet started, but various kinds of important data have been obtained from the spaceflights made by puppies and guinea pigs, and from various microgravity experiments using retrievable satellites, making full preparations for human space travel.

In the middle of 1960's, the Shanghai Mechanical and Electrical Design Institute and the Biophysics Research Institute of the Chinese Academy of Sciences, in full cooperation, successfully conducted China's first biological rocket experiments. They launched five rockets of two models: T-7A (S1) and T-A (S2).

On 19 July 1964, China's first biological rocket T-A7 (S1) [as published] was erected. Eight guinea pigs were immobilized in the biomodule in the front of the rocket.

"Lift off!" The rocket, spitting flames from its tail, roared off toward the sky. Soon afterward, a massive parachute brought them slowly back to the ground. When the guinea pigs were removed from the airtight biomodule by biologists, they did not realize that over a short space of less than an hour, they, together with fruit flies and phycomycete in 12 test tubes, had travelled to an altitude of 70 km, completed China's first ever spaceflight, and were to go down in history as China's first space "explorers."

Two years later, on the early morning of 15 July 1966, a male dog named Xiao Bao [1420 6283; small leopard] found himself lying prone in the biomodule of the biological rocket T-7A (S2) [as published] and waiting very peacefully for the sacred moment. This deserved to be known as another breakthrough in the evolution of China's wide-space [kuan jian 1401 7035] retrievable probes. In this biological experimental rocket adapted from the T-7A meteorological rocket, the biomodule was fitted on its ceiling with loggers for recording the puppy's four major physiological indices: electrocardiogram, blood pressure, breathing, and body temperature. On its floor, a photographic system capturing the puppy's attitudes during the flight. The life support system consisted of an automatic oxygen supplier and an automatic carbon dioxide concentration regulator. Four shock absorbers fastened the dog's seating tray to the lower frame of the biomodule. In front of the tray was a conditioned reflex device, while behind the dog was a receptacle for its feces and urine.

### Biological Experiments in Space Succeeded

At 0820, with a thunderous roar, the rocket lifted off from the launcher and flew toward infinity. All the trackers on the ground received all kinds of information

transmitted from the rocket without interruption. The data indicated that the rocket was in a perfectly normal state of flight.

Two helicopters seconded by the air force were circling above the point of fall suggested by the electronic computer. Before long, they spotted their target. The cameramen on board the helicopters immediately aimed their cameras at the biomodule falling from the sky under a white parachute. Carefully, the biologists opened the lid on the biomodule, only to find Xiao Bao still lying on the tray with glowing eyes and moving ears. He was also making some little noises, as if sharing with people what he thought of his experience of the spaceflight.

On 28 July of that same year, the scientists sent a female dog, Shan Shan [3790 3790] on a "space trip."

Everything was normal with those two dogs after they returned to the ground and both had offspring later.

The important achievements made in the dog-carrying biological rocket experiments upgraded the level of experiments in this area in China quite significantly, and put them on a par with similar experiments abroad. They created precious experience for high-altitude biological studies and life support projects in China.

#### Satellite "Life" Experiments

Since 1975, China has launched 16 retrievable satellites. With one exception, which went out of control, all were successfully retrieved. This high success rate is very rare in the world. It indicates that China's satellite-retrieval technology is mature and reliable. China's mastery of satellite-retrieval technology is undoubtedly of great value to the development of space-earth round trip systems for manned spaceflight and to the development of spaceships. In fact, China not only has the capability of flying into space, but also possesses the key technology of safely retrieving spacecraft with a level of sophistication quite unique in today's aerospace industry worldwide.

Since the launching of the biological rockets in the 1960's, China has conducted more than 100 space biological experiments on the three retrievable satellites launched in 1987, and has collected a host of information on the metamorphoses and activity changes of some plants, microorganisms, bacteria, insect eggs, and lower animals under conditions of microgravity and space radiation. For example, the mystery of "why the oxygen consumption of silkworm eggs in the cosmic space is found to be negative" has attracted scientists' interest extensively.

The retrievable satellite that China launched in 1990 carried 67 research items catering to space life science and

space material science. It was on this satellite that the first life experiment on higher animals — two guinea pigs — was conducted, and the resultant data logged in the biomodule provided precious information for research on life support systems for manned spaceflight. Also carried by this retrievable satellite was a material crystal experiment, microgravity gaging, and some biological experiments on the cultivation of crops, micro-organisms, mushrooms, algae, and insect cells.

The reason guinea pigs became the first generation of passengers on board China's satellite is that they are small and light, as 20 guinea pigs take up the space of a dog. The more animals go into space, the more data can be collected. Furthermore, the reproductive cycle of guinea pigs is only 22 days, which is ideal for many space studies, such as the research on the skeletal muscular system, cardiovascular function, immunity, and biological heredity. Also carried by this retrievable satellite was a material crystal experiment, microgravity gaging, intrastellar radiation dose measurement, and biological experiments on the cultivation of crops, micro-organisms, mushrooms, algae, and insect cells.

Animals have always been forerunners in human spaceflight. The former Soviet Union and the United States, before they sent human astronauts into space, both conducted a large number of animal spaceflight experiments. Today, though mankind has accumulated much experience in manned spaceflight over a long period of time, there still are many issues in the area of spaceflight medical support that need to be solved through animal experiments.

#### China Has Begun Training Astronauts

The U.S. and Soviet activities in manned spaceflight over a period of more than two decades have greatly expanded mankind's sphere of activity. Naturally, China would not reconcile itself to falling behind. In 1968, a research institute was founded in Beijing which was dedicated to spaceflight medical engineering. For more than 20 years since its founding, this research institute has scored great successes, carrying out substantial research on various key technologies aimed at sending Chinese astronauts into space. Batches of pilot astronauts have gone through all kinds of experiments simulating the outer space environment, thus laying a foundation for China's independent training of its own astronauts.

China now has a complete set of equipment for ground simulation experiments serving spaceflight medical engineering, such as low-pressure sealed cabins, low-pressure transition temperature chambers, life support systems, environmental simulation experimental modules, hydraulic program-controlled multipurpose swivel

chairs for human use, and fast-drop impact towers for human use. All the experimental equipment has been developed by China on its own.

The Astronautical Medical Engineering Research Institute, led by renowned scientist Qian Xuesen, has conducted many pioneering studies using the theory and methodology of systems engineering, and has solved some technical puzzles in the development of life support systems and spacesuits. It also has trained a contingent of astronautical medical engineering scientists and technologists from both the medical and engineering circles.

The prevention of some medical problems concerning spaceflight, such as space motion sickness, has always been an object on which astronautical medical research worldwide has focused. China has actively applied traditional Chinese medical theory and methodology to research on the impact on astronauts of space zero-gravity field, noise, and radiation, and has obtained a number of valuable findings.

Among the research achievements related to manned spaceflight, China in recent years has developed medical oxygen suppliers, protective helmets, microwave-proof suits, and antimicrowave medicines, which not only can be used for manned spaceflight, but also have valuable military and civil applications.

#### Solid Foundation in Development of Carrier Rockets

It was the "Long March" series of carrier rockets that put China among the world's leading space technology powers. With these carrier rockets, China achieved great feats that caught worldwide attention in the launching of domestic and foreign satellites.

Since 1970, China has conducted dozens of flight experiments and satellite launches using an array of carrier rocket models, with a world-class success rate. Over a period of time, it used four models — "Long March 1," "Long March 2," "Long March 3," and "Long March 4" — to launch low-orbit scientific experiment satellites, retrievable satellites, geostationary telecommunications satellites, and solar stationary orbital meteorological satellites. A host of facts point to the fact that the technology of China's various models of carrier rockets is mature and well developed, and their performance stable and reliable.

In November 1975, China successfully launched a retrievable remote-sensing satellite using a "Long March 2" carrier rocket. China was the third country with satellite-retrieval technology following the Soviet Union and the United States.

The "Long March 3" rocket was based on "Long March 2," the difference being that the third-stage propeller on "Long March 3" used liquid hydrogen and liquid oxygen propellant. This was a key technology that only very few countries in the world could master. In particular, the technology of secondary starting with the third-stage hydrogen-oxygen engine under conditions of high vacuum and zero gravity pushed China's rocket technology to the very forefront of the world.

The enormous achievements China has made in rocket technology make it possible for it to spare two or three rockets for launching foreign satellites each year. In October 1985, the Chinese Government announced that the "Long March" series carrier rockets would enter the international market and undertake launching services for foreign countries. Subsequently, on 7 April 1990, China successfully launched a U.S. made "Asia 1" telecommunications satellite for the Asia Satellite Company. Thereafter, China launched an Australian satellite, a Pakistani satellite, a Swedish satellite, and Asia-Pacific 1. China's aerospace technology made its way into the international commercial market.

At present, China's aerospace technology is moving from the experimental stage into the stage of full application. China is stepping up the development of application satellites, such as large-capacity and long-life telecommunications and broadcasting satellites, a new generation of static meteorological satellites, and multipurpose resource satellites. According to experts, China's satellite technology is maturing, and the development of manned spaceflight is imperative.

#### New Progress in China's Manned Spaceflight Development

The development of manned spaceflight deals mainly with the development of two things, the carrier and the spacecraft. China has quite a foundation in both areas.

It has been learned that over past years, China not only has acquired 300 kg-8,000 kg carrying capacity for the near-earth orbit, and 1,400 kg-2,500 kg carrying capacity for the synchronous transfer orbit, capable of launching various types of satellites, but also made technical preparations for launching 4,000 kg-plus satellites into synchronous transfer orbit.

At present, there are two approaches to developing the space-earth round trip transport system adopted by other countries. One is by winged space shuttle and the other by spaceship. Experts believe that besides having to develop small spaceships, China also must develop space shuttles. In developing its space stations, China may borrow the method of assembling modules adopted by the former Soviet Union. In developing large carrier

rockets, China should utilize its existing, mature liquid-propellant rocket engine technology.

The China Space Technology Research Academy revealed that China has worked out a conceptual plan for the development of future space stations. It will be a cylindrical structure in the shape of a cross. The aerospace authorities are deliberating the development of a new generation of large carriers and space shuttles.

It is foreseeable that with the unremitting efforts of Chinese aerospace workers, the day should not be too far off when the Chinese will roam the space on board spacecraft they have made themselves.

#### **SSTC Signs Agreement on Developing Robots**

*OW2508104095 Beijing XINHUA in English  
0904 GMT 25 Aug 95*

[FBIS Transcribed Text] Beijing, August 25 (XINHUA) — The State Science and Technology Commission (SSTC) signed an agreement with three companies here today to develop robots for automobile, video tape recorder, and TV set manufacturing.

According to the agreement signed by the SSTC and the No.1 Automobile Group, the Panda Group and Peony Electronics Group, robot assembly lines will be developed for assembling automobiles, video tape recorders, and TV sets.

The agreement also states that robot production centers will be set up in the No.1 Automobile Group and the Panda Group.

Intelligent robot development has been listed by SSTC on its medium- and long-range hi-tech research program.

#### **Qinghai Opens World's Largest Germ Plasma Bank**

*OW2508070295 Beijing XINHUA in English  
0638 GMT 25 Aug 95*

[FBIS Transcribed Text] Xining, August 25 (XINHUA) — A state center of samples of germplasm, the largest in the world, has been established in Xining, in the cool and dry atmosphere of the capital city of west China's Qinghai Province.

During the seventh five-year plan (1986-1990) period, China built the National Germ Plasm Resources Data Bank in Beijing to keep reserves of germ plasm on an equal with the world's most advanced levels.

Germ plasm is the genetic carrier of fundamental traits of germ cells of living things. And, since keeping the country's resources in one place is like putting all eggs in one basket, a reserve center of duplicate samples of germ plasm was built in Xining by the

Institute of Crop Germ plasm Resources of the Chinese Academy of Sciences and the Qinghai Research Institute of Agriculture and Forestry five years ago.

The center has a capacity of 400,000 samples and is made of the latest building materials so that it will not be affected by tremors and will stay at a constant temperature, according to the experts.

The same research group that designed the center, managed to transport more than 300,000 duplicate samples of germ plasm from Beijing to Qinghai during the cold months over a four-year period.

They have also improved technique of delaying the aging of seeds, increasing the vitality of the seeds, and saving the endangered substance of life.

Experts say that these scientific achievements will have a long-lasting influence on the country's crop breeding, biological research, and ultimately on agricultural development.

#### **Polypropylene Fiber Ready for Mass Production**

*OW2508091095 Beijing XINHUA in English  
0855 GMT 25 Aug 95*

[FBIS Transcribed Text] Beijing, August 25 (XINHUA) — A type of fine polypropylene fiber, called Silpron, which was developed by the Institute of Chemistry of the Chinese Academy of Sciences (CAS) is ready for mass production, the institute announced today.

Mass production of the fiber has been approved as a major project of the country.

Experts say that this state-of-the-art fiber has been popular in many developed countries since the beginning of the '90s, owing to its excellent properties. Silpron textiles and garments have a soft and silky smoothness, absorb sweat readily, and are easy to wash and dry.

At a news conference held by the Institute of Chemistry today, the president of CAS said that Silpron is an advanced research finding, and that industrial production will greatly benefit the nation's high-tech fiber industry.

The Beijing Silpron Technology Co. was established with a total investment of more than 10 million yuan to produce Silpron.

**Military & Public Security**  
**Beijing Intensifies Military Pressure on Taiwan**  
**HK2508033895 Hong Kong LIEN HO PAO**  
*in Chinese 19 Aug 95 p 2*

[By staff reporter from Beijing: "Series of Military Exercises in East China Sea Will Continue and Be Escalated To Pressure Taipei Into Concession"]

[FBIS Translated Text] An official source confirmed here yesterday that closely following the second round of missile exercises in the East China Sea, the mainland military will conduct the third round of missile exercises and military maneuvers with the Navy as the main body and the coordinated operation between the Navy and the Air Force as the supplement. The source said that these military drills are of clear political significance, namely, pressuring Taiwan into returning to the "one China" stance.

The Beijing official source disclosed that following this series of missile exercises in the East China Sea, the mainland echelon has decided to proceed with the third missile tests near the East China Sea. He noted that the frequent and intensive missile exercises indicate that the mainland has made military preparations to intensify pressure on Taiwan.

The official said that apart from continuing missile tests, the mainland military will also carry out a large-scale military maneuver along the southeastern coast if the Taiwan authorities do not announce the cancellation or postponement of the October drills, or if Li Teng-hui immediately announces his candidacy for re-election.

He added that after the first missile test by the Chinese authorities in the East China Sea, Li Teng-hui still made numerous tough remarks, such as on the "capability to manufacture nuclear weapons." After the second military maneuver, he made fewer speeches and his domestic reputation tended to decline. Tens of thousands of people who support the "one China" stance and call for maintaining peace across the Strait took to the street to demonstrate, indicating that China's tough policy has achieved "results" to a certain extent.

The official said that the mainland authorities no longer pin hopes on Li Teng-hui; still less do they want him to be re-elected. There is no room for "negotiations" between the mainland authorities and Li Teng-hui. He pointed out that after years of observation, the mainland echelon has concluded that Li Teng-hui neither hopes for "unification" nor has embarked on "the road to unification," and has branded him as "a person pursuing a separatist path."

"The Taiwan people's eyes are discerning," the official said, adding that China has made it clear that should Li

Teng-hui be re-elected or should his successor continue the road of "Taiwan independence," China would only intensify its tough policy toward Taiwan.

A source close to the military said that to intensify military pressure, "internal opinion preparations" have been made, including a letter by the Association for Relations Across the Taiwan Strait strongly protesting against the Taiwan military for killing fishermen, and a series of articles in RENMIN RIBAO and from XINHUA News Agency criticizing Li Teng-hui. He noted that China's high-ranking military officers are very enthusiastic about using force against Taiwan. On the one hand, as the military has not waged war for a long time, its personnel and equipment need to be tested. On the other hand, it wants to raise the status of servicemen and their say in the decision-making body so as to secure more funds and interests for the military.

The source said that the mainland military did not rule out the possibility of "small military clashes" with Taiwan following more frequent military maneuvers. Such clashes will help Taiwan return to the "one China" stance. In addition, relevant studies by the mainland military prove that partial clashes across the strait will not invite foreign interference because these countries will know that it is "China's internal affair" in which mainland China brooks no foreign interference.

**Mainland Exercises To 'Pressure' Li Teng-hui**  
**HK2408071095 Hong Kong LIEN HO PAO**  
*in Chinese 24 Aug 95 p 1*

[Report from Hong Kong by staff reporter: "Second Wave of Exercises Fails To Attain Expected Objectives, Beijing Makes Follow-Up Plans To Exert Pressure"]

[FBIS Translated Text] The ongoing second military exercise in the East China Sea is a routine exercise conducted by the armed forces garrisoned in Fujian. It also constitutes part of a series of this year's military exercises. In coordination, the CPC has launched a media attack against Li Teng-hui in order to exert influence on Taiwan's public and attain the objective of suppressing and overthrowing Li Teng-hui.

A source from the mainland disclosed that those participating in the current live ammunition drill are the ground forces of the 81st Group Army and naval forces of the Sanduo base of the Donghai Fleet. The other two army-level units in Fujian, the Eighth Air Force and the provincial military district, as well as the Fujian reserve forces also have dispatched troops to join the exercise. As various arms and services have appeared in public at the same time, one can see soldiers and military aircraft and vessels everywhere in Fujian.

This is actually a scheduled normal exercise, but the CPC cooperated with the XINHUA commentaries in attacking Li Teng-hui, which presented the effects of armed threat. According to the source, it is biased for foreign reports to say that the current military exercise is the result of Jiang Zemin, CPC general secretary and chairman of the Central Military Commission, yielding to pressure from the military. It is true that the military intends to increase pressure on Taiwan and has even asked for the restoration of the Fuzhou Military Region. However, Jiang Zemin also wants to exert pressure on Taiwan in order to express his discontent at the negative response from Taiwan to his "eight-point proposal." Earlier this year, Jiang Zemin proposed holding talks to end cross-strait hostility, but Li Teng-hui ignored his proposal. This naturally has led to Jiang's consideration of exerting pressure on Taiwan.

The source disclosed that the mainland was confused by Taiwan's reaction to the CPC's missile drill conducted last month: On the one hand, stock prices dropped sharply, which indicated that popular confidence was shaken. On the other, Li Teng-hui's popularity rose to over 80 percent. At the same time, the Southeast Asian nations also expressed their worries over the "theory of China's threat." For this reason, the CPC ended the drill ahead of schedule and issued only four of the five planned articles criticizing Li Teng-hui's speech at Cornell University. After an evaluation of the first military exercise, the mainland started its second exercise as usual to further assess reaction from Taiwan and other countries. The mainland also intended to apply influence over Taiwan's stock market and popular feeling so as to increase the pressure on Li Teng-hui.

According to an analysis by the source, the anticipated political target of the second military exercise has not yet been attained. Viewed from the reaction of other countries, particularly the United States and Japan, however, reaction from the government and military organizations has been normal, forming a contrast to their reaction to the nuclear test.

On the prospects for mainland's show of military strength, the source said, the planned large-scale ground-naval-air combined exercise will be conducted on schedule. Troops from other military regions also will join the exercise. However, such military exercises and domestic media attacks alone are not enough to influence Taiwan's situation and resume cross-strait talks. It is estimated that further action will be taken, but the specific plans will be made after the conclusion and evaluation of the entire military exercise.

#### Possibility of Cross-Strait 'Conflicts' Foreseen

*HK2508081995 Hong Kong LIEN HO PAO  
in Chinese 25 Aug 95 p 2*

[Report from Hong Kong by staff reporter: "Second Exercise in East China Sea Ends on Tuesday Ahead of Schedule, Third Exercise To Be Conducted in Late September, Military Holds Cross-Strait Arms Conflict Can Hardly Be Avoided"]

[FBIS Translated Text] The People's Liberation Army's second military exercise in the East China Sea ended in the small hours of 23 August. A military source said: A preliminary decision has been made that a third exercise will be conducted in mid or late September; the military believes that cross-strait military conflicts are hardly avoidable.

The second war exercise in the East China Sea was scheduled to end today, but all test items with live ammunition were accomplished on 22 August because of the weather, and all military units participating in the exercise withdrew from the test site on 23 August. It is estimated that the authorities will formally announce the end of the exercise and call off the relevant warnings.

The exercise, which mainly involved the naval force, included missile and artillery tests with live ammunition, minelaying and minesweeping, and attacks against and by submarines.

According to a report, taking part in the exercise were units from the North, East, and South China Sea Fleets; the naval air force; over 20 warships and vessels, including guided missile frigates, guided missile destroyers, minelayers, and minesweepers; the naval air force's 40 planes, including bombers, fighter planes, antisubmarine planes, and reconnaissance planes; and coastal artillery units and coastal guided missile forces of the Fujian naval base, with Fujian-based Army units playing a supportive role.

Therefore, the exercise was another joint war exercise involving the three armed services following the major military exercise conducted by the navy on the Zhoushan Archipelago last year.

Apart from artillery tests, the 10 guided missiles fired were all short-range missiles, including ship-to-surface, air-to-ship, and "Sea Eagle" ship-to-ship missiles. In addition, minelaying and minesweeping also were included in the exercise.

The location of the test site had special implications. Some 10 years ago, in 1985, the mainland naval force conducted the second underwater submarine-launched missile test in the same maritime area. The test proved an extraordinary success, and was praised

by Deng Xiaoping. The latest exercise was directed against Li Teng-hui, as arranged by the Central Military Commission (CMC), and is also designed to mark the successful launching 10 years ago. The submarine that launched the missile 10 years ago also took part in the exercise.

The exercise was conducted under the command of Admiral Zhang Lianzhong, the PLA Navy commander, and Vice Admiral Wei Fulin, newly appointed deputy chief of staff responsible for military operations. CMC Vice Chairman Liu Huaqing, who carried out investigations in Shanxi and inspected the guided missile base there, often inquired about the exercise. Zhang Zhen, who was in Beijing to take care of the CMC's routine work, also often gave instructions.

During the exercise, the units involved actually accomplished all naval test operations involved in a possible military action against Taiwan, including confrontation between warships, attacks by warships against planes, attacks by shipborne planes, attacks by and against submarines, and naval blockade. It has been learned that the General Staff Headquarters and the CMC were satisfied with the exercise.

According to the CMC leadership, the exercises already arranged involved the three armed services, meaning that medium-range guided missiles were fired by strategic guided missile forces, followed by the exercise with live ammunition by the navy, and by the exercise with the air force as the mainstay, which will involve principal war planes, air-to-surface guided missiles, bombers, and parachute landing forces.

According to a report, in the CPC leadership's view, the fact that Li Teng-hui has decided to run in the direct presidential election means accomplishment of the internal legal procedures needed for Taiwan independence. If Taiwan were to join the United Nations, it would mean accomplishment of the international legal procedures necessary for Taiwan independence. Therefore, a shooting war cannot be excluded if Li Teng-hui, who is campaigning for Taiwan independence, cannot be forced to step down.

Given the circumstances, a chance occurrence may possibly lead to military conflict. The atmosphere in the upper echelons, and the guidance they have given to the media are similar to what happened in 1979, which saw military conflicts between China and Vietnam.

#### **East China Sea Missile Exercises End 25 Aug**

*OW2508101995 Beijing XINHUA in English  
1001 GMT 25 Aug 95*

[FBIS Transcribed Text] Beijing, August 25 (XINHUA) — The guided missile and artillery firing exercises conducted by the People's Liberation Army in the East China Sea have ended, according to an announcement issued by the Ministry of Communications here today.

It says that vessels and airplanes can resume normal operations as from zero hour on August 26 in and above the waters in the sea area formed by a line connecting four points at 27 degrees 16 minutes north and 121 degrees 26 minutes east, 27 degrees 16 minutes north and 122 degrees 30 minutes east, 26 degrees 30 minutes north and 122 degrees 05 minutes east, 26 degrees 30 minutes north and 121 degrees 00 minute east in the East China Sea.

#### **Leaders View Sichuan War Exhibition**

*OW2508045695 Chengdu Sichuan Television Network  
in Mandarin 1145 GMT 22 Aug 95*

[Announcer-read report over video; from the "Provincial News Hookup" program]

[FBIS Translated Excerpt] [video opens with photos of four generals, cutting to show visitors, some in military uniforms and some in civilian clothes, entering the exhibition hall] An exhibition featuring the accomplishments of Marshals Zhu De, Liu Bocheng, Chen Yi, and Nie Rongzhen during the war of resistance against Japan opened at the Sichuan Provincial Museum in Chengdu today. The exhibition is jointly sponsored by the Sichuan Provincial CPC Committee's Propaganda Department; the Sichuan Provincial People's Government's Culture Department and Education Commission; the Propaganda Department of the Chengdu Military Region's Political Department; the Sichuan Military District's Political Department; and the Sichuan Armed Police Corps' Political Department in commemoration of the 50th anniversary of the victory in the world's antifascist war and in China's war of resistance against Japan. [passage omitted]

Attending the exhibition's opening ceremonies were Chengdu Military Region Commander Liao Xilong; Political Commissar Zhang Zhijian; Governor Xiao Yang; Nie Ronggui, provincial Chinese People's Political Consultative Conference committee chairman; Yang Chonghui, provincial party committee deputy secretary; Huang Hengmei and (Li Nahai), Chengdu Military Region Air Force commander and political commissar; Xi Yifang, provincial party committee's standing committee member and propaganda department director; Vice

Governor Xu Shiqun; Zhu Guiheng, provincial military district deputy political commissar; Li Wenqing and Chen Mingyi, Chengdu Military Region veteran leaders; veteran provincial leaders Tian Bao, Zhang Yuqin, He Haoju, and Feng Yuanwei. [passage omitted]

**\*New Approach to Building Border Defenses**

*95CM0366A Beijing GUOFANG [NATIONAL DEFENSE] in Chinese 15 Jun 95 No 6, pp 27-28*

[Article by special correspondents Bateer (1572 3676 1422), Huai Qingli (3232 1987 4539), and Han Guoquan (7281 0948 2938): "New Approaches to the Building of Border Defense in the New Era—Interview with Peng Cuifeng (1756 5050 1496), Inner Mongolia military region commander, and Political Commissar Zhang Zhen (1728 3791)"]

[FBIS Translated Text] Recently, Peng Cuifeng, Inner Mongolia military region commander, and Political Commissar Zhang Zhen received the correspondents in an office walled with maps for an interview on how to improve border defense during the new era.

The two generals recounted the outstanding achievements made in years of border defense work. They said that border defense work has always been the concern of the CPC Central Committee, the State Council, the Central Military Affairs Commission, and the old generation of revolutionaries. Party and government leaders including General Secretary Jiang Zemin, Premier Li Peng, Liu Huqing, and Vice-Chairman Zhang Zhen made numerous inspection trips to Inner Mongolia, provided important instructions, and pointed the way for our border defense work. For many years, we conscientiously carried out higher level border defense plans and policies. We strove to respond to the new situations and the new character of border defense work under new circumstances, steadily explored new methods of border control, maintained national sovereignty and territorial integrity, forged close relations between the armed forces and the government and between the armed forces and the people, constantly expanded foreign contacts, maintained political stability and social tranquility, developed the economy of border areas, and created a climate for reform, opening to the outside world, and economic construction. These achievements were the fruits of the correct leadership of higher authority, and the fruits of the joint struggle of the armed forces and local jurisdictions.

In discussing how to establish a new approach to the building of border defense, Commander Peng said that the fundamental policy and basic principles of the Military Affairs Commission and General Headquarters about how to go about border defense work under a

socialist market economy are very clear. The main task is a new approach to the building of large scale border defense, and dedicating ourselves to doing a solid job of putting it into effect.

**Establishing new approaches to the building of large scale border defense requires, first, an adjustment to changes in the border defense combat situation, firmly inculcating a large scale border defense concept.** The nature and character of border defense work today is qualitatively different than in the past. The changes are manifested in the scope of border defense being in the process of changing from border defense lines to border defense zones. Previously, we regarded border defense as being a line; but today, because of the development of modern science and technology, both the depth of defense, and the angle from which guards view border defense, have expanded to form a broader defense zone. Second, border defense space is developing from the former land defense to all space-time and omni-directional defense. This means that in both peacetime and wartime, we must guard and control everywhere all the time. Third the use of defense forces is changing from the purely military garrisoning toward joint military, police, and civilian defense; and also, from the traditional methods of transportation, communications, troops and weaponry to modern transportation networks, communications networks, high caliber troops, and high performance weaponry.

**Establishing new approaches to the building of large scale border defense means adjusting to new situations in the border defense struggle in the new era.** The threat to our country's security interests today is not just a military threat. We also face political, economic, scientific and technical, and cultural challenges. The competition and confrontations in today's world in which economic strength lies at the core of overall national strength will have a direct bearing on the security of nations. This is, without doubt, an extremely important task that large scale border defense concepts will have to face. Therefore, establishment of a large scale border defense concept requires establishment of an approach that both strengthens defense and makes border regions prosper. It requires the education of the broad masses of officers and men in willingness to obey and to subordinate themselves to the larger task of building the national economy. They must conscientiously consolidate border defense, build neighborly and friendly relations, make the border areas and their peoples prosper, and safeguard stability to create a peaceful atmosphere for economic construction. At the same time, they must take active part in building the economy of the border regions, support the border regions in spreading culture, education, health care services, and scientific and tech-

nical knowledge, and strive to make the border regions into "windows" to the outside world for demonstrating China's political and economic strength, and for displaying national prowess and military prowess.

**Establishing a new approach to large scale building of border defense requires a response to changes in border defense combat tasks, giving first place to political building.** On this issue, political commissar Zhang Zhen feels that performance on border defense affects national sovereignty and territorial integrity, as well as the stability of the border situation. The international situation is in a period of complex changes today. In particular, the changes that we are currently facing are great, and they have a direct impact and effect on our border defense troops. Antagonistic forces inside and outside the country are working together to intensify infiltration, subversion, and separatist activities against us. They constantly employ religion, race, and human rights to pressure us in a vain effort to force changes. Therefore, one of the basic tasks in border defense work during the new era is real intensification of the battle against infiltration, subversion, and separatism. We must make better political building a basic component in the strengthening and consolidation of border defense to ensure that we will always be politically strong. We must organize study of the "Selected Works of Deng Xiaoping," stressing deep understanding of them. At the same time, we must study socialist market economy theory, and use the theory of building a distinctively Chinese brand of socialism to arm our minds. We must give close attention to "four sides" ideological education in which patriotism, arduous struggle, and selfless contributions are the core. This year marks the fifth anniversary of Jiang Zemin's important inscription, "ardently love the frontier, bear the frontier in mind, build the frontier, and protect the frontier." We must link this to outlook-on-life education, and use many ways to propagandize it and put it into effect among border area armed forces and peoples, making "four sides" ideology strike deep roots in the hearts of all officers and men. We must do more to re-educate officers and men in the armed forces and the far-flung border area peoples in the Marxist national viewpoint and the party's national policies, employing study of the "Minority Nationalities Autonomy Law" to guide everyone in inculcating the ideology of the great unity of all nationalities. We must also resolutely battle hostile forces who want to destroy the unity of nationalities, and divide the motherland. We must do a good job of building socialist spiritual civilization, and continue to spread the meritorious experiences of the Xilin Gol League, and the Xilin Gol Military sub-region in their joint building of a border cultural corridor, which the Ministry of Culture and the General Political Department commended. We must use

socialist ideology to occupy the ideological and cultural ramparts, and to enhance ability to ward off corrosive influences and be ready for any emergency. We must conduct covert struggle to do a good job of countering spies and keeping security secrets, guarding against and cracking down on all plots of spies and secret agents.

**Establishment of a new approach to the building of large scale border defense also requires changes in border defense combat methods, with the armed forces and the citizenry working together on defense.** Commander Peng and Commissar Zhang believe that many new situations and many new peculiarities have appeared with the advent of reform and opening to the outside world. With the opening to the outside world, railroads, highways, and aviation have opened up in many ways, at many levels, and in many directions. Border trade, international and border tourism, the export of labor services, and technical cooperation have become unprecedentedly active. Many people from inland China have also surged into border regions; and with Chinese and foreign traders, tourists, workers, and the unemployed mingling, control is difficult. With readjustment of second line checks and verifications, pressures on the border front line have increased. The number of criminal public order cases has shown a rising trend. Under these circumstances, the job of controlling the borders cannot be done solely by border defense forces, border defense police, and border defense public security units. Only a cooperative division of labor, increased coordination and integration, and unified action by the armed forces, the police, and the citizenry under unified leadership of the CPC Committee and government can improve border control. The main action required is to increase the border defense awareness of local leaders at every level to produce vigorous performance. In recent years, the autonomous region CPC Committee has annually convened military discussion meetings [yijunhui - 6231 6511 2585], and people's armed police committee meetings [wuweihui - 2976 1201 2585] for the relay of higher level instructions about the building of border defense, and to study problems in building border defense. They have drawn up and promulgated nine regulatory documents based on investigation and study, including "Inner Mongolia Autonomous Region Border Control Regulations," "Ad Interim Regulations on Setting Up and Administering Ports of Entry and Exit," "Ad Interim Control Measures for Inner Mongolia Autonomous Region Markets Trading With Minority Nationalities or Foreign Countries," "Inner Mongolia Autonomous Region Joint Military, Police, and Civilian Defense Regulations," and "Border Region Joint Military, Police, and Civilian Implementation Regulations," as well as how to prevent illegal cross-border fishing. They also drafted "Inner Mongolia Autonomous Region

"Border Control Regulations," and "Inner Mongolia Autonomous Region National Defense Education Regulation", to lay a foundation for bringing border defense control within the rule of law. Second is the need to improve the border defense awareness of all professional agencies, permitting no intervening obstructions. Many agencies are involved in the building of border defense, and border defense covers a wide range of activities. Without coordination among all agencies concerned, action is difficult. All units concerned must work together under the leadership of CPC committees and governments at all levels to shape an integrated mechanism in which border defense forces, border defense people's armed police, and foreign affairs units have a cooperative division of labor. Third is the need to improve the border defense awareness of all the people to make use of the overall power of the armed forces, the police and the citizenry in jointly guarding the borders. During the past several years, the armed forces, the police, and the citizenry have set up checkpoints and laid traps to control border area joint defense zones. They have worked together on joint control and taken concerted actions. During spring and fall, the emphasis is on control along the border line to decrease incidents involving foreign countries. Border zones have also adopted production and management responsibility systems that link responsibilities, rights, and interests. They produce good economic returns and control border areas effectively, thereby effectively controlling disorder. Spread of these effective methods must continue.

**In the establishment of a new approach to building large scale border defense, readjustment to new changes in the targets of border defense combat methods, and striving to make border defense forces better able to improve themselves is also very important.** Commissar Zhang said that some comrades feel that it used to be guns against guns, but now it is traders against traders. This is one way of putting it, but changes in this regard also cannot be overlooked. In today's situation, the main target of border defense attack has widened from intruding enemies, and enemy agents concealed within or escaping abroad, to criminal elements engaged in smuggling motor vehicles and medicinal drugs along the border. It is also necessary to control and educate members of the public who violate the law by travelling to prohibited areas to farm and raise livestock, who cross the border to fish, and who dig medicinal herbs. These targets of border defense combat are of an enemy of an internal character. They have strong political overtones, which make their handling very difficult. This means that our border defense forces must be of very high caliber. We must improve their ability to build from within, ensuring that they have a high degree of continuity, and that

they are centralized and unified. The emphasis on political and ideological work in the border defense forces must be on solving organizational and leadership problems in ideological work. Particular attention must be paid to this task at the regimental level. We must set forth the general principles, relate far away events to local situations, make abstractions real, and make principles concrete so that the broad masses of officers and men build a sense of honor, responsibility, and mission about guarding the border to protect the country. We must halt smuggling and major cases, and pay closer attention to, and do more about party organization at all levels. In building party branches in company size units, we must ensure that all officers and men maintain unanimity with the CPC Central Committee politically, ideologically, and in action at all times and under all circumstances, always being loyal guards that the party and people trust. On the subject of improving border defense capabilities, Commander Peng noted that training requirements for border defense forces must be hard and strict, with emphasis placed on cadre training and training in skills needed for the performance of duties. Training enables border defense cadres to meet requirements for "being able to train and organize border defense duties, being able to handle border defense matters correctly, and being able to direct units to deal with suddenly occurring incidents." Training enables all border defense personnel to "know the enemy's situation, know the terrain in the border area, and know border defense policies." Border defense forces must be gradually equipped with reconnaissance equipment and vehicles as border defense duties require. Equipment must be modernized. Border defense forces must be administered strictly according to directives and regulations; and all laws, policies, and rules and regulations must be observed so that orders are carried out at once, and forbidden actions are halted at once. More must be done to improve unity between the armed forces and the government, between the armed forces and the people, and among nationalities. We must carry out the party's nationalities policies, regard the places we garrison in the same way we regard our home village, and shoulder the urgent, difficult, dangerous, and onerous tasks in building the frontier. We must do more good works for all frontier area nationalities, thereby maintaining an image of strength and civilization among the people of all nationalities on the frontier and in contacts outside the country, and thus displaying the good activities of the people's armed forces.

**\*Waging Hi-Tech Information Warfare Reviewed**  
**95CM0387A Beijing JIEFANGJUN BAO in Chinese**  
**13 Jun 95 p 6**

[Article by Wang Bao Cun (3769 0202 1317) and Li Fei (2621 7378); "An Informal Discussion of Information Warfare"]

**[FBIS Translated Text]The Essential Substance of Information Warfare**

As to the substance of information warfare, while the military officials of all countries have not yet defined it authoritatively, military experts in many countries have delimited its implications. And while such definitions may be imperfect and even somewhat biased, they are certainly of great benefit to our understanding of the innate features of information warfare.

Lieutenant General Selgin [1049 1422 1203], U.S. Defense U president, [name and title given as translated] notes in an article that "information warfare is a means of armed struggle aimed at seizing the decisive military superiority and focused on the control and use of information." General Sharven [3097 0448 2429], U.S. Army Chief of Staff, [name and title given as translated] holds that "information is the most crucial combat effectiveness," with the essentials of "battlefield information warfare" being to "collect, process, and use enemy information, and to keep the enemy from acquiring and using our information." U.S. combat theory analyst Fitzman [5481 5412 5536] sums up the substance of information warfare in six points: 1) to obtain intelligence on enemy military, political, economic, and cultural "targets," and to keep the enemy from acquiring intelligence on one's own similar "objectives." 2) to destroy or jam the enemy's C<sup>3</sup>I system, and to protect one's own C<sup>3</sup>I system. 3) to ensure our use of [outer] space information, and to keep the enemy from using space information. 4) to establish a comprehensive data processing system all the way from sensing to firing. 5) to establish a mobile and flexible information and intelligence data base. 6) to use simulated means to help commanders make decisions.

Chinese experts who are studying high-tech warfare have also defined information warfare as follows: Information warfare is combat operations in a high-tech battlefield environment in which both sides use information-technology means, equipment, or systems in a rivalry over the power to obtain, control, and use information. Information warfare is a combat form aimed at seizing the battlefield initiative, with digitized units as its essential combat force, the seizure, control, and use of information as its main substance, and all sorts of information weaponry [smart weapons] and systems as its major means. Information warfare is combat in the

area of fire assault and operational command for information acquisition and antiacquisition; for suppression [neutralization] and antineutralization; for deception and antideception; and for the destruction and antidesctruction of information and information sources.

We hold that information warfare has both narrow and broad [specific and general] meanings. Information warfare in the narrow sense refers to the U.S. military's so-called "battlefield information warfare," the crux of which is "command and control warfare." It is defined as the comprehensive use, with intelligence support, of military deception, operational secrecy, psychological warfare, electronic warfare, and substantive destruction to assault the enemy's whole information system including personnel; and to disrupt the enemy's information flow, in order to impact, weaken, and destroy the enemy's command and control capability, while keeping one's own command and control capability from being affected by similar enemy actions.

The essential substance of information warfare in the narrow sense is made up of five major elements and two general areas. The five major elements are: substantive destruction—the use of hard weapons to destroy enemy headquarters, command posts, and command and control [C&C] information centers; electronic warfare—the use of electronic means of jamming or the use of antiradiation [electromagnetic] weapons to attack enemy information and intelligence collection systems such as communications and radar; military deception—the use of operations such as tactical feints [simulated attacks] to shield or deceive enemy intelligence collection systems; operational secrecy—the use of all means to maintain secrecy and keep the enemy from collecting intelligence on our operations; psychological warfare—the use of TV, radio, and leaflets to undermine the enemy's military morale.

The two general areas are information protection [defense] and information attack [offense]. Information defense means preventing the destruction of one's own information systems, ensuring that these systems can perform their normal functions. In future wars, key information and information systems will become "combat priorities," the key targets of enemy attack.

Information offense means attacking enemy information systems. Its aims are: through destroying or jamming enemy information sources, to undermine or weaken enemy C&C capability; through cutting off the enemy's information flow, to paralyze the enemy's whole operational system. The key targets of information offense are the enemy's combat command, control and coordination, intelligence, and global information systems. A successful information offensive requires three pre-

requisites: 1) the capability to understand the enemy's information systems, and the establishment of a corresponding database system; 2) diverse and effective means of attack; 3) the capability to make battle damage assessments [BDA] of attacked targets.

Information warfare in the broad sense refers to warfare dominated by information in which digitized units use information [smart] equipment. While warfare has always been tied to information, it is only when warfare is dominated by information that it becomes authentic information warfare. Information warfare in the broad sense has many manifestations, as follows:

**Computer virus warfare.** Sharven [as translated] claims that: While the major 20th century weapons were tanks, the key 21st century weapon will be the computer. In future wars, operations against military computers will become a key type of information warfare. That will mean computer virus warfare. Computer viruses are special software programs that can alter or destroy a computer's normal operating programs. They are characterized by detection difficulty, rapid contagion, longstanding latency, and active and continuous encroachment, and can severely disrupt the C<sup>3</sup>I system, smart weapons, and combat potential. Some countries are now considering the organization and establishment of computer virus warfare platoons.

**Precision warfare.** The advent of smart weapons was bound to cause the appearance of precision warfare. Precision warfare means precision in reconnaissance [spying] and advance warning, in information transmission, in command coordination, in mobile positioning, in target strikes, in damage extent. Precision warfare is characterized by less destruction and fewer casualties, less combat fog and fewer troops, less logistics support, and better troop mobility.

**Stealth warfare.** Stealth aircraft, ships, tanks, and missiles will flood future battlefields. In future wars, as target detection will mean immediate elimination, future warfare will be a confrontation between the "stealthy" and the "detectors." So stealth and antistealth warfare will not only arrive in the battle arena as an independent and crucial type of warfare, but will also be conducted very intensely.

#### The Innate Features of Information Warfare

While information warfare in the true sense has not yet arrived in the battlefield arena, repeated live-troop maneuvers and simulated drills by the armies of Western nations such as the United States, as well as the Gulf War, have enabled us to determine certain innate features of information warfare:

Battlefield transparency. While "battlefield fog" used to be a major problem troubling battlefield commanders, with digitized units, the battlefield is transparent. All belligerent troops will have the battlefield situation at their fingertips both day and night, being able to see clearly on computer terminal display screens both their own and the enemy's positions, postures, concentrations, and movements. Sharven [as translated] says that the transparency of coming wars will be "a quantitative step higher than in the Gulf War."

Battlefield transparency will be the result of digitized technology. Digitized technology can transmit battlefield intelligence to commanders quickly and accurately in a noiseless and graphics-plus-words form. Digitized cameras on reconnaissance planes can send, in 30 seconds, a 24-size photo that was shot in the morning to an operational command center as far as 315 kilometers away. Frontline troops using digitized infrared sights can detect maneuvers by over 100 enemy tanks, immediately reporting them to their superiors with digitized information equipment. Digital compression technology can determine enemy detection distance, raising information processing capability, and transmitting intelligence in real time to all units (subunits), even to individual soldiers, for joint information sharing.

**Overall coordination.** Overall coordination is another feature of information warfare. The building of the battlefield information superhighway will mean that all operational systems such as combat forces, combat support units, and combat logistics support units, as well as all operational functions such as battlefield intelligence, command, control, communications, and assaults, will be linked into an organic whole. Coordinated actions by all units of this whole can raise combat effectiveness. For instance, coordinated firepower can raise fire assault effectiveness. The operating program is that air and land sensors detect enemy target activity, which is immediately displayed on screens at the support arm operational center, with the target positioning system accurately converting enemy target coordinates, and then the target assignment system assigning suitable targets to the weapons launching platforms such as cannons, helicopters, and tanks that are most suited to attack, which finally make the strikes.

**Operations in real time.** Real-time is defined as the time of dealing with a certain event being almost the same as the real time of the occurrence of the event. Real-time operations mean immediate responses to all events that occur on the battlefield between ourselves and the enemy; and involves the taking of countermeasures such as timely target detection, timely command, timely mobility, real-time strikes, and real-time support. The advantage of this is that it shrinks

the time of completion of battlefield missions that used to be hours or even longer to minutes or even seconds, making decisionmaking and the course of battle nearly simultaneous.

**Strike precision.** Long-range precision strikes without collateral damage will become the essential fire-assault form of future information warfare, pushing carpet bombing and area fire into the stage of history. Future warfare will be as accurate, clean, and neat as the gamma knife [scalpel] cutting out the brain tumour, because future wars will use smart weapons on a large scale. Such weapons include guided bombs, guided

shells, guided shrapnel, cruise missiles, no-tip guided missiles, and antiradiation missiles. Their sensors will be capable of capturing all useable direct or indirect target information, such as sound waves, electric waves, visible light, infrared waves, lasers, and even odors and gasses, which information computers will be able to differentiate and analyze, thus independently recognizing and striking targets. Such smart ammunition not only can hit targets 100 percent of the time, but also can hit predetermined target positions.

(To be continued.)

**General****Beidaihe Conference Notes Future of SEZ**

*HK2508041495 Hong Kong LIEN HO PAO  
in Chinese 24 Aug 95 p 2*

[Dispatch from Taipei: "Beidaihe Conference Decides To Preserve Special Economic Zones, Calls on Them To Improve Systems and Care for Impoverished Areas"]

[FBIS Translated Text] The mainland's central authorities have agreed unanimously to preserve special economic zones [SEZs], but will commit them to integrate with central and western regions so as to promote mutual development by taking advantage of their strong points, and to improve their systems so as to reduce privileges and corruption, which result in undesirable side effects.

Cadres in western China have repeatedly suggested to the central authorities that SEZs be set up in their regions to promote local economic development. These cadres have never demanded the cancellation of the SEZs in coastal areas, but the central authorities have not seriously considered their suggestion, thus arousing considerable dissatisfaction among them.

Whether or not the existing SEZs should be preserved caused much controversy at the recent Beidaihe conference. While some participants believed that the SEZs should be discontinued because they have accomplished their historical mission, others thought otherwise. There are five SEZs on the mainland, located in Shenzhen, Zhuhai, Xiamen, Shantou, and Hainan. In 1994, Shenzhen earned more foreign exchange than other parts of the country, and ranked second in terms of financial revenue.

Hu Angang, a researcher from the National Actual Conditions Research Center under the Chinese Academy of Social Sciences, said: The continued existence of SEZs does not comply with the principle for developing a market economy; in the meantime, the SEZs in coastal areas have fostered a privileged class and become a hotbed of corruption. He believed that the SEZs should be discontinued to set up a market of fair competition. Hu's view was supported by cadres from the western region.

In light of the controversy, the Shenzhen SEZ immediately compiled relevant data. Shenzhen pointed out: As the economic reform is still under way, what the SEZs in coastal areas need is no longer the preferential treatment granted by the central government, but rather the central affirmation of the system practiced in the zones. The Shenzhen SEZ is giving wide publicity to their support for impoverished regions to reduce criticisms against them.

At the Beidaihe conference, the mainland's central authorities preliminarily agreed to preserve the SEZs. They also decided to review the relevant system to do away the side effects and to increase control over the zones.

**SETC Official on Plans To 'Free Up' Capital**

*OW2508103395 Beijing XINHUA in English  
0850 GMT 25 Aug 95*

[FBIS Transcribed Text] Tianjin, August 24 (XINHUA) — A senior official with the Chinese State Economic and Trade Commission (SETC) said that industries across the country should cut production, reduce stockpiles, and push sales to free up their bound capital.

SETC Vice-minister Shi Wanpeng said at a meeting that concluded yesterday that capital contained in finished products in stockpile is still rather high and overdue payments are on the rise.

This had an adverse effect on economic performance of the companies and posed a serious threat to efforts to cut production, reduce stockpiles, and push sales.

Shi pointed out that all government departments must list, at regular intervals, marketable and unmarketable products, and release pertinent details and help enterprises coordinate production with marketing in collaboration with banks, as well as power and railway departments.

China has in fact had some success in cutting production and stockpiles and in pushing sales, with industrial enterprises at or above the township level getting, by the end of June this year, a total sales income of about 2,259.6 billion yuan (about 269 billion US dollars) and a sales-production rate of 94.59 percent, 1.9 percentage points higher than that in the corresponding period of last year. The sales production rate in Tianjin, Shanxi, Shanghai, Qinghai, Ningxia, and Xinjiang even exceeded 96 percent during the period.

**Column Examines 'Loopholes in Management'**

*HK2508053895 Beijing RENMIN RIBAO in Chinese  
14 Jul 95 p 2*

[From the "Penetrative Exploration of China's Economic Efficiency" column, article by reporters Yang Qing (2799 7230) and Ni Xiaolin (0242 1420 2651); "Negligence of Management: Black Hole That Causes Waste — On Investigation of Management Issues" — first paragraph is note by the column's editorial committee]

[FBIS Translated Text] Note from the Editorial Committee for the "Penetrative Exploration of China's Economic Efficiency": China now is making the transition

from the planned economy to the socialist market economy. We cannot just sit and wait for reform measures to produce results in improving economic efficiency, but must carry forward our subjective initiative and start by improving ourselves and the things around us. Stopping the loopholes in management and improving management at all levels and in an all-round way is an exceedingly important means of improving of economic efficiency. We suggest that all cadres and entrepreneurs should study "Negligence of Management: Black Hole That Causes Waste," and really show a sense of responsibility and mission in strengthening management. The phenomenon of the massive drain of economic efficiency owing to loopholes in management can be tolerated no longer.

Management, which is often referred to as "software" and "fine-tuning," has been neglected and slighted for many years. All these years, it has mercilessly inflicted on us a series of problems which we are reluctant to face, but have no way of avoiding, such as obstacles to the implementation of government orders, policy mistakes, serious deficits, runoff of assets, and frequent disasters. Through investigation, our reporters have discovered that management going downhill and alarming waste have become persistent ailments in our social and economic life.

We have called on many enterprises in our effort to learn more about the management situation. However, some units politely declined to talk to us as soon as they knew that we wanted to talk about management. Some of the persons in charge of these trades and enterprises were old acquaintances, but when we begged them for an interview, they told us that they were busy or at a meeting. Some factory directors or managers who felt that they had to oblige would tell us over the phone that they were grasping management and that management was their primary task for the year. Some of them frankly admitted that management was the business of the higher authorities, and that their concern was to grasp efficiency and products.

We called on some economists and asked them what they thought of these responses shown by enterprises on the question of management. Their opinion was: Management is a serious problem in enterprises at present. Since they have not done much to improve their old ways of extensive management, it is understandable that they would feel reluctant to see reporters. On the other hand, enterprises are working under all kinds of restraints. Leaders of enterprises often have too much on their hands and cannot grasp management as well as they would wish. Furthermore, on the question of awareness of the need for management, many enterprises have brushed management to one side,

and have not combined it with their day-to-day work. Another reason they neglect management is that they think that management is slow in producing results, and they have not yet tasted the obvious benefits of management. A strange phenomenon we noticed during our visits was that government departments tend to stress that enterprises must strengthen management, while enterprises tend to say that the government should delegate its power, try not to interfere, allocate more funds, and approve more projects. Although relevant departments of the State Council have held repeated meetings on strengthening enterprise management, very few of them have truly tackled the problem. Problems arising from management are becoming increasingly serious and alarming.

In recent years, many enterprises have been troubled by problems of increasing rejects, excessive inventories, growing material consumption, equipment breakdowns, frequent accidents, and slow turnover of funds. According to statistics compiled by the State Planning Commission on material consumption quotas for 90 products, 50 percent of products have registered substantial increases in consumption between 1985 and 1994. According to the China Quality Management Association, losses resulting from rejects amount to about 100 billion yuan a year, exceeding the profits handed over annually by state-owned enterprises. In 1994, when enterprises were complaining about the shortage of funds, their year-end inventories exceeded the figure at the beginning of the year by 100 billion yuan, meaning that about 400 billion yuan was tied down. According to a recent survey by the State Statistical Bureau of 2,586 loss-incurring enterprises in eight provinces and cities, mismanagement has been responsible for over 80 percent of losses incurred by these enterprises. As a result of reforms and the work of enterprise upgrading and all-round quality control in the 1980s, the time needed for enterprises to finish and supply goods was 30 to 33 days, but in 1994, it increased to 46 days, well above reasonable limits.

A survey conducted by the Ministry of Internal Trade discovered serious waste in the management of material flow. The cost of material flow now accounts for 50-60 percent of the cost of commodity circulation, and ineffective transportation and breakage are common. For example, breakage of glass and ceramics in shipment is as high as 20 percent and causes losses in excess of 100 million yuan each year. In 1993 and 1994, more than 80,000 fires were reported throughout the country, with direct economic losses amounting to 2.3 billion yuan and casualties registered at 15,000. Most of these fires broke out in enterprises, primarily because of poor internal management, and because safety measures and fire prevention regulations were not observed.

Much equipment purchased by enterprises from other countries with huge sums were left at the customs or wharves, and were never claimed. Some enterprises did not even know that merchandise worth hundreds of thousands of yuan was missing until public security officers had found the culprits and they were told to check out their inventories. These phenomena cannot be resolved merely by the delegation of power, further investment, or the purchase of new equipment.

The phenomenon of management going downhill is also present in government organs and functional departments, and the losses thus incurred are equally alarming. According to information provided by the State Auditing Administration, only 30 percent of the 300-plus major cotton producers in 17 counties in a certain province were allocated chemical fertilizers at the state's fixed price in exchange for their delivery of cotton to the state. This seriously dampened the enthusiasm of peasants and aroused their suspicion, making them wonder what had gone wrong. Theoretically, there are clear-cut provisions regarding the distribution of chemical fertilizers. There are rules governing the management of dealers, standards, and prices. However, it has been discovered that there are hundreds of chemical fertilizer dealers in a single county, and over 100 chemical fertilizer dealers in a single township. Peasants cannot buy chemical fertilizers following the normal procedures, and have to pay more than 20 percent above the price prescribed by the state to get what they need. Where have the excess amounts gone? Some management departments do not have the slightest idea how much assets or funds their subordinate units and enterprises have. It has been discovered that 40 circulating enterprises have diverted about 1 billion yuan to the so-called "three production" petty accounts, and failed to enter these in their big books, and that no record of these can be found in statistics or government management departments. In many places, government departments will do all they can to inject funds as soon as they hear that an enterprise is suffering from funds shortage. It is understood that very few of them bother to find how the funds injected are used. A sample survey of 20 enterprises conducted by the State Auditing Administration shows that as much as 1 billion yuan has been diverted to share and property speculation. In recent years, there have been many complaints from members of the public about the massive runoff of state-owned assets. An important reason for the runoff is that supervisory departments at all levels have not effectively exercised management, or do not have a strict management system.

**Commentator on Jiang Enterprise Reform Speech**  
**HK2508084095 Beijing RENMIN RIBAO in Chinese**  
**21 Aug 95 p 1**

[Commentator's article: "Seize the Correct Orientation of Enterprise Reform — Earnestly Studying Comrade Jiang Zemin's Important Speech on Enterprise Reform"]

[FBIS Translated Text] The reform of state enterprises is the focal point of this year's economic structure reform. Under the leadership and plan of the party Central Committee and the State Council, gratifying progress has been made in either the experiment to establish a modern enterprise system or the reform of enterprises at large. In addition, enterprise reform, particularly the reform of state enterprises, is an arduous and complex task. Converging state enterprises with the market economy is an unprecedented pioneering task, plus the fact that state enterprises have encountered some difficulties owing to various factors. Under this situation, how to seize the correct orientation of enterprise reform and how to advance it smoothly, particularly state enterprise reform, have become a issue of utmost concern to the people.

In May and June this year, Comrade Jiang Zemin conducted thorough inspections in Shanghai, Jiangsu, Zhejiang, Liaoning, Jilin, and Heilongjiang. After listening to reports from all provinces, municipalities, and some enterprises, he delivered an important speech on the issue of further promoting the reform and development of enterprises, particularly large and small state enterprises. Comrade Jiang Zemin's speech discussed the situation and tasks of China's state enterprise reform comprehensively, specified both the short- and long-term orientation of enterprise reform, and profoundly expounded on some thorny and major issues in enterprise reform which we are pondering. This is an important document providing guidance for state enterprises to continue deepening the reform.

Comrade Jiang Zemin's speech clearly set out that to actively promote enterprise reform, it is necessary to correctly understand and resolve issues in seven areas.

First, we must further strengthen our determination and confidence in running state enterprises well. Large and medium-sized state enterprises are the mainstay of the national economy. To run large and medium-sized state enterprises well is of great significance to enhancing China's economic strength, improving the people's living standard, maintaining social stability, and building socialism with Chinese characteristics. This is not only a major economic issue vital to the national economic development as a whole, but also a major political issue concerning the fate of the

socialist system. In addition, guided by Comrade Deng Xiaoping's theory of building socialism with Chinese characteristics and the party's basic line, the 14th party congress has systematically summed up 10-odd years' experience in reform and opening up, and the practical experience in economic construction, and has set the reform goal of establishing a socialist market economy system. The Third Plenary Session of the 14th CPC Central Committee further defined the orientation of state enterprise reform, that is, establishing a modern enterprise system. The party Central Committee and the State Council also have adopted a series of measures. Major changes have taken place in the outlook of state enterprises, resulting in the emergence of a batch of better managed enterprises. These have strengthened our determination and confidence in continuing to run state enterprises well.

Second, we must comprehensively and accurately understand the characteristics of a modern enterprise system. "Clear-cut property rights, well-defined power and duties, separation of the functions of government from those of enterprises, and scientific management" are the four phases that are unified as a whole, and not a single one of them can be dispensed with. We cannot emphasize only one area and neglect the others. The experiment to establish a modern enterprise system is aimed at allowing these enterprises to start first and achieve breakthroughs in some major and difficult areas of the reform, and at providing experience and methods for further deepening enterprise reform. It is normal to have different viewpoints in the course of this. What is important is that we must make a bold attempt and explorations, promptly discover problems in practice, and sum up experience, so as to continue deepening the reform. Enterprise reform should proceed from the actual conditions rather than last for a short time, or impose uniformity or one pattern.

Third, we should develop and strengthen the public economy in the course of deepening enterprise reform. Maintaining the dominance of public ownership and the joint development of diverse economic sectors is an important principle of building socialism with Chinese characteristics. By conducting reform, we should strengthen the market competitiveness of state and collective enterprises, maintain the dominant position of the state-owned economy in the national economy, and let the state-owned economy play a leading role in the national economy.

Fourth, we should integrate the deepening of enterprise reform with the strengthening of enterprise management, and with the promotion of development and the improvement of economic growth quality. Deepening enterprise reform and strengthening enterprise man-

agement are related in such a way that they promote, complement, and ensure each other. Enterprise reform covers rich reform contents, of which enterprise management reform is an important part. Enterprise reform should be integrated with enterprise reorganization, technological renovation, and the strengthening of management. "Conducting reform in these three areas and strengthening enterprise management" is a good idea.

Fifth, we should conscientiously do a good job in all coordinated reforms. To deepen enterprise reform and conduct experiments in the modern enterprise system, we should focus on resolving the following issues properly: First, stepping up efforts to resolve the issue of the failure to separate government functions from those of enterprises; second, strengthening the management and supervision of state assets; third, establishing a social security system as soon as possible; and fourth, resolving the issue of enterprises having excessive burdens.

Sixth, to deepen enterprise reform, we should rely on the working class wholeheartedly, and should intensify the building of the enterprise leading body.

Seventh, leadership over enterprise reform should be further strengthened. Leaders at all levels should intensify their studies; place the work of experimenting with a modern enterprise system high on the agenda; go deep into the realities of life, stress research, respect the masses' pioneering spirit, achieve breakthroughs in knotty and major issues; and all departments should work closely and strengthen coordination, and make concerted efforts to promote enterprise reform.

Comrade Jiang Zemin's speech has taken on everything from a strategically advantageous position. Proceeding from the integration of theory and practice, it has, in terms of guiding idea, clearly expounded all important problems in the current enterprise reform. The publication of this speech has played a tremendous role in promoting enterprise reform in China.

At present, with political and social stability, China has seen sustained and rapid economic growth. Some problems we face are those that crop up in the course of advance. The major economic targets in the Eighth Five-Year Plan have been mostly attained or overfulfilled. We are currently stepping up efforts to formulate the Ninth Five-Year Plan, and to set a development goal for a longer term. Under such a good situation, we must double our efforts to do a good job in various areas in accordance with the party Central Committee's principle of "seizing opportunities, deepening reform, opening wider to the outside world, promoting development, and maintaining stability." We must complete the task of

building a framework for the socialist market economy by the turn of the century. The most important thing is to pay attention to enterprise reform as a central link. As there still are some years left in this century, we must strive to make decisive progress in enterprise reform, and particularly in state enterprise reform, during this period of time.

Since the beginning of this year, this newspaper has carried a series of reports and commentaries on the reform and development of state enterprises. We later held a forum on the Deyang experience, and highlighted the report on the correct evaluation of and confidence in state enterprise reform. Recently, our editorial department held special a meeting for our chief correspondents based in 10 provinces and municipalities. We reported and discussed the situation of the experiment to establish a modern enterprise system, issued the meeting's minutes, and started the "Analysis of Experiments in Modern Enterprise System" column. From now on, we should follow the requirements of Comrade Jiang Zemin's speech, and should continue to step up publicity and reports on state enterprise reform. We hope that all quarters will support us.

Let us continue to conscientiously study and carry out the spirit of Comrade Jiang Zemin's speech, make clear our tasks, strengthen our confidence, do solid work, and promote state enterprise reform actively and prudently.

#### **Guangdong Province Termed Largest Toy Exporter**

*OW2508034795 Beijing XINHUA in English  
0327 GMT 25 Aug 95*

[FBIS Transcribed Text] Guangzhou, August 25 (XINHUA) — Toy exports of south China's prosperous Guangdong Province are expected to reach 2.13 billion US dollars' worth this year, out of an estimated output of 18.7 billion yuan worth (about 2.25 billion US dollars), according to official forecasts.

"This will make our province the largest toy exporter in China," an official said, adding that toy manufacturing has, over the years, become an important pillar of the provincial economy.

The amount of Guangdong's toy exports stood at 260 million US dollars in 1991 and was 1.94 billion US dollars last year. Output was valued at 17 billion yuan in 1994.

A provincial government plan has put toy output at 29.92 billion yuan and exports at 3.4 billion US dollars for the year 2000, which translates into an average annual growth rate of 12 percent.

The official attributed the boom in the toy business to advanced technology introduced into Guangdong by

many Hong Kong toy companies which have moved to the Pearl River Delta, while overseas joint ventures in the toy business have also mushroomed in Guangdong in recent years, the official added.

The number of companies in Guangdong now stands at more than 3,360, as opposed to a mere 766 in 1988, with a workforce of more than one million and production of over 20,000 types of toys.

To boost the competitiveness of local toy products, Guangdong has held two annual national and international toy exhibitions in Guangzhou and in the special economic zone of Shenzhen, the official said.

#### **Output of Textiles in Jul**

*HK1808015195 Beijing CEI Database in English  
16 Aug 95*

[FBIS Transcribed Text] Beijing (CEIS) — Following is a list of the output of textiles in July 1995, released by The State Statistical Bureau:

Item	unit	7/95	7/94
Yarn	10,000t	41.38	41.55
Yarn	10,000pc	230.28	231.23
Cloth	100m.m	15.21	15.58
Of:Pure cotton	100m.m	8.25	8.56
Chemical fiber	100m.m	4.78	4.76
Silk	10,000t	0.71	0.83
Silk fabric	100m.m	2.55	2.94
Woolen fabric	10,000m	2628.65	2147.84
Knitting wool	10,000t	2.66	2.42
Garment	100m.pc	3.80	3.42

Note: T — Ton, Pc — Piece, M.M — Million Meter, M.pc — Million piece

**\*Vice Minister on Plans To Control Inflation**

95CE0516A Beijing CAIMAO JINGJI [FINANCE AND TRADE ECONOMICS] in Chinese 11 Jun 95 No 6, pp 8-14, 3

[Article by Ma Kai (7456 0418), vice minister of State Planning Commission: "Price Control Higher Priority Than Price Reform in 1995"]

[FBIS Translated Text] Since reform got under way and the open policy was introduced, inflation has soared to double-digit territory two times. The first was in 1988 and 1989, when the nation's overall retail price level jumped 18.5 percent and 17.8 percent, respectively; and the second was in 1993 and 1994, when it climbed 13.2 percent and 21.7 percent, respectively. The second round of high inflation began in 1992, gradually gathered strength in 1993, peaked in 1994, began its retreat in 1995, and is not over yet as of this writing.

**I. Characteristics of Latest Price Surge**

**A. Overall features: strong momentum, sharp increase, long duration.**

In the months between the second half of 1992 when the first signs of economic overheating emerged and March 1993, retail prices increased by double-digit percentages (10.3 percent in March) and have continued climbing at the same pace month after month ever since, topping 20 percent in February 1994 (20.9 percent) and setting a record high for the latest round of inflation in October 1994 (25.2 percent). The retreat began last November, with price increases moderating to 19.7 percent in February 1995. Between March 1993 and to date, there have been 24 months in which double-digit price increases were recorded. Similar increases are projected for much of this year. This is unprecedented in China since reform got under way and the open policy was introduced, in fact ever since the PRC was founded.

**B. In terms of structure, prices of capital goods shot up first, followed by those of consumer goods. In particular, agriculture-related products have been the inflationary leaders, more responsible for driving up the overall price level last year than anything else.**

Localities across China scrambled to put up capital construction projects in 1993. As a result, the prices of capital goods like cement and steel skyrocketed. For the year as a whole, the prices of industrial capital goods rose 33.7 percent. Subsequently the government adopted measures to limit fixed assets investment and the prices of capital goods headed downward in 1994, dropping 3.8 percent on the average for the entire year. There are ample supplies of steel, refined oil, timber, cement, automobiles, and other principal materials. In contrast, it is the prices of agriculture-related products that went

through the roof in 1994. Among them are, first of all, food, led by grains and including cooking oil, meat and poultry and their finished products, eggs, aquatic products, fresh vegetables, and restaurants. Food prices soared 35.2 percent in 1994 on top of the 14.3 percent increase a year ago, 13.5 percentage points higher than the average price increase for other categories of commodities, pushing up the overall price level 12.3 percentage points, or 56.7 percent of its total increase. Specifically, grain prices catapulted 46.7 percent. Grain prices are the inflationary leader, responsible for pushing up every other price; poultry and egg prices jumped 37.2 percent; fresh vegetables, 38.2 percent. The second group of agriculture-related products consists of cotton textile goods. Cotton procurement prices last year rose from 342 yuan to 544 yuan per dan, a gain of 59.1 percent. The prices of textile goods climbed 14.7 percent while those of apparel, footwear, and hats, 19.6 percent. The prices of sweaters, vests, cotton interlock jerseys and trousers, and bed sheets just about doubled. The third group of agriculture-related products comprises agricultural capital goods represented by chemical fertilizers. The prices of agricultural capital goods leaped 21.6 percent in 1994 from the level a year ago. December alone saw prices shoot up 27.3 percent from the same month in 1993, setting a historic record. The prices of chemical fertilizers in particular went through the roof, prompting bitter complaints from the peasants.

Relatively, the prices of industrial consumer goods have gone up by a modest margin in the latest bout of inflation. For instance, the prices of electrical machinery inched up 0.4 percent on the average for all 1994; domestic electrical appliances, 6.7 percent; and cultural and sporting goods, 9.8 percent.

**C. Geographical characteristics.** The latest round of inflation started in the cities and along the coast before spreading to the countryside and the interior, where it has hit hard. Inflation last year was higher in the countryside than in the cities, in the interior than along the coast.

The price surge began in the cities and then moved into the countryside. It occurred first in economically developed areas before hitting underdeveloped areas. In the early phase of the latest round of inflation, therefore, price increases in cities and along the coast both outpaced their counterparts in the countryside and the interior. The urban inflation rate exceeded the rural rate by 3.8 percentage points in 1992 and 1.6 percentage points in 1993. Since April 1994, however, the rural inflation rate has exceeded the urban inflation rate 11 months in a row, the margin widening from 0.3 percentage point to 5.1 percentage points. Since

the beginning of this year, price increases in the cities have been losing steam steadily while the inflationary momentum remains strong in the countryside. Prices went up 24.0 percent in the countryside and 19.1 percent in cities in January, a difference of 4.9 percentage points. The corresponding figures for February were 22.6 percent and 17.5 percent, with the gap widening to 5.1 percentage points. Geographically speaking, of the 29 provinces, autonomous regions, and autonomous municipalities in the nation, 16 jurisdictions exceeded the nation's average price increase rate in January and February of 1994 and 1995, of which 13 jurisdictions, or 80 percent, were in the interior.

**D. Nature of Inflation.** The overall price level has gone up in part because of adjustments to the price structure and in part because of inflation. The two exist side by side, interacting with each other.

Inflation and price increases are two interrelated concepts which nevertheless are different from each other. Inflation is currency expansion; that is, currency devaluation caused by a glut of money. Inflation manifests itself as widespread and sustained increases in commodity prices, pushing up the overall price level. However, a rise in the price level cannot be equated with inflation. We need to distinguish between two kinds of increase in the currency and two kinds of price increases.

In the first case, the overall price level rises because the government moves to end the underpricing of primary products in the course of adjusting the price structure or decides to turn hidden subsidies on an excess of finished products into open subsidies. This kind of increase in the price level is good for the nation and good for the people. We cannot avoid it. Nor is it something to worry about. Because of these price reform measures, there is a need for more currency to pay for some products as they are bought and sold. Since the effective demand for currency has gone up, the resultant increase in the money supply is in line with the effective demand for currency and is essential to keeping the national economy operating normally. In this scenario, the relationship between the rise in prices and the increase in the money supply is one of cause and effect, the increase in the money supply being the result of rising prices. What we have here is money being issued for normal economic reasons, not inflation.

In the second scenario, there is an excess of fixed assets investment, consumption funds shoot up too rapidly, and the budget deficit is widening. For all these reasons, the government has no choice but to put more money into circulation, thus driving up commodity prices. Such price increases are bad for the nation, and bad for the people. In this case, a ballooning money supply is the

cause, rising prices are the result. When so much money is pumped into circulation that it pushes up prices, we call it the supra-economic issue of currency. The upshot is classic inflation. When the total economy is out of balance in an inflationary situation, people are more prone to jack up prices arbitrarily and without justification, which only pushes up the overall price level even further, like adding fuel to a fire. This kind of price increase is also bad for the nation and the people.

The surge in the overall price level in the past two years is in part a function of the adjustment of the price structure and in part a function of inflation. In 1994, the state took the initiative to adjust the prices of basic products like crude oil, natural gas, grains, and cotton, raising the overall price level 4 percentage points. Also, the delayed effects of price increases for basic products in 1993 were still being felt in 1994. All told, the effect of price adjustments on the overall price level tops 8 percentage points.

## II. Causes of Latest Surge in Prices

There is still no consensus on the causes of the surge in prices and the inflation over the past two years, especially 1994. Some people consider them demanded; others, cost-driven; yet others, structural. In my opinion, they are the outcome of a host of economic factors interacting synergistically, and not a single factor operating alone. Nor did the causes come about overnight. Instead they have been years in the making before finally culminating in the latest price surge. The inflation of 1988-1989 was essentially demanded. Aggregate social demand and aggregate supply were badly out of balance with each other and the public had high inflationary expectations. At one point panic purchasing occurred across the nation and people scrambled to cash checks. The latest round of price surge and inflation, in contrast, has more complicated causes. Three groups of causes exist side by side, interacting with one another and between them lifting commodity prices substantially. In general, we can identify the following causes:

**A. An excessive growth of the aggregate social demand was the root cause of the surge in prices.**

Guided by the speeches delivered by Deng Xiaoping while he was touring south China in 1992 and the 14th CPC National Congress, the national economy entered a new phase of development in the past few years after emerging from the shake-out and rectification lasting almost 3 years from 1989 to 1991. The enthusiasm for reform and development reached an unprecedented high in every quarter, which was a good thing as it fueled the rapid development of the national economy, scoring achievements that the whole world took note of. Some

sectors and regions, however, pursued an unrealistic growth rate, causing aggregate social demand to swell. According to calculations by statistics agencies, the gap between aggregate demand and aggregate supply was 6.5 percent in 1992, 7.0 percent in 1993, and 6.2 percent in 1994. In other words, the shortfall topped the normal level of 5 percent three years in a row. How did the aggregate demand explosion come about?

Let's first take a look at investment demand. Fixed assets investment in all society rose from 550.9 billion yuan in 1991 to 1,592.6 billion yuan in 1994, a 2.9-fold increase, or 42.6 percent annually on the average, greatly in excess of the average annual GDP growth rate during the same period. In the first half of 1993, in particular, fixed assets investment jumped 70 percent from the first half of 1992, 40 percentage points over the GDP growth rate in the same period. A direct consequence of the explosion of investment demand was to drive up the prices of investment goods sharply (the prices of steel and cement almost doubling in the last couple of years), thereby increasing the costs of industrial products and ultimately causing the prices of capital goods and consumer goods alike to surge across the board. According to conservative estimates, for every 100 yuan in investment, over 40 yuan is ultimately converted into consumption funds, an important force behind the rise in the prices of consumer goods.

Now let's turn to consumption demand. According to statistics compiled by the banks, cash wage expenditures rose 25.3 percent in 1992 from the level a year ago and climbed another 30.3 percent and 40.1 percent, respectively, in 1993 and 1994, all higher than the gain in labor productivity during the same period. Add assorted in-kind incomes and grey incomes derived from various channels, and the effective growth rate of consumption funds must have been far higher than the rise in labor productivity. Relative to the wealth created, people, especially a small number of high-income individuals, now have significantly more cash on hand. No matter how expensive an article, somebody can afford it. This phenomenon has directly driven up prices.

The dual explosion of investment and consumption over the last few years has led to a sharp expansion of the money supply. Take a look at the money (M2) pumped into circulation. Between the time the PRC was founded and the end of 1994, the total amount of money in circulation on the market stood at 728.9 billion yuan, including 411.1 billion yuan issued in the past three years, 56.2 percent of total amount of money in circulation. Next, let's look at the money supply broadly defined, or M2. Its growth has been phenomenal, up 37.3 percent in 1992 compared with

1991, 24 percent in 1993 compared with 1992, and 34.4 percent in 1994 compared with 1993. Part of the expansion of the money supply was necessary to keep the national economy growing and to monetarize the economy, but the magnitude of its expansion was clearly far beyond the normal range. When you have too much money chasing relatively few commodities, the result is wide-spread price increases. Although the latest round of price increases and inflation has some features that distinguish it from the earlier episode, its root cause is still the swollen money supply, itself the product of the dual explosion of investment and consumption year after year.

B. Imbalances in the industrial structure, particularly the "short leg" in agriculture, are a conspicuous factor behind the latest round of inflation.

Agricultural production has been overlooked in some places in recent years. It is commonplace to find farmland being put to other uses without authorization and fertile farmland being abandoned and idled. "There has been a drop in grain cultivation along the coast and a reduction in vegetable growing in the inner suburbs." The massive outflow of rural funds and young workers and the under-funding of farmland improvement and water conservancy facilities have greatly weakened the agricultural base. Also, last year was marked by severe natural disasters, including flooding and drought, putting the supply of grains, cotton, oil-bearing crops, sugar-bearing crops, live pigs, and other major agricultural products under considerable stress. Hence the mounting prices in the agricultural sector, which, in turn, drove up the overall price level significantly. In the same way that the dual explosion, particularly the investment explosion, building up over the years fueled the latest round of inflation, so did imbalances in the industrial structure and the lag in agricultural development constitute its deep-rooted cause.

C. A key reason for the steep surge in prices was the intensification of reform and the accelerated release of the cost pressure accumulated during the adjustment of the price structure of basic products.

To accelerate the creation of a socialist market economy, the state has taken bolder and bolder steps in the area of price reform in recent years, the most important being a substantial rise in the prices of a number of agricultural byproducts, basic raw materials, and energy. Between 1990 and 1993, the state adjusted the prices of energy, raw materials, and transportation, which had been on the low side traditionally, with the total value of price adjustments about 200 billion yuan. At the same time, it deregulated a large number of prices. In 1994, the pace of reform quickened with price adjustments for the year

totaling 602 billion yuan. These measures are essential to straightening out price relations, aiding agricultural production, strengthening basic industries, adjusting the economic structure, and easing the burden on the treasury. They have contributed toward these purposes. However, because of the overall inferior quality of the Chinese economy and its inefficiency, enterprises have a very limited capacity to absorb the higher costs of basic products by lowering material consumption and improving labor productivity. For them, there is no choice other than to neutralize some or most of the impact of the adjustments of the prices of basic products by raising the prices of their own products. At a time when aggregate social demand was inflated, enterprises were in a strong position to pass on rising production costs, and in the process lifting the overall price level.

Last year we pushed ahead with reform on all fronts: fiscal, taxation, financial, and foreign exchange, unveiling many important measures. They too were responsible for driving up the price level to a certain extent. Take tax reform, for instance. The overall tax burden on enterprises did not increase as a result of last year's tax reform. However, enterprises which have seen a drop in their tax burden would not take the initiative to lower prices while enterprises whose tax burden has gone up seek to pass on their additional burden by increasing the prices of their products in each and every way possible. Another example is the abolition of the dual exchange rate system. As a result, the exchange rate of the renminbi fell from 1:5.7 to 1:8.7, a 53 percent devaluation. This translates into higher import costs and hence higher prices at home.

A higher overall price level caused by reform measures mentioned above is a price we must pay to develop the economy and reform the structure. The problem is that we underestimated the attendant effects of reform. We should try to do better in that regard.

**D. Lagging market and price management** is one reason for the excessive rise in prices that cannot be overlooked.

Price reform has been under way for over a dozen years now. In the last few years, the government has lifted price control from the bulk of commodities and services in order to expedite the formation of a new system in which the market is the principal setter of prices. By late 1993, official prices accounted for 4.8 percent of total social commodity retail sales, 10.4 percent of all agricultural byproduct procurements, and 13.8 percent of total earnings from the sale of industrial capital goods. In other words, about 90 percent of product prices are set by the market. The pace of price deregulation has not been slow and its scope

is not small. In contrast, there is a notable delay in writing concomitant laws and regulations to standardize market price behavior and in devising the appropriate management measures. When enterprise behavior is irregular, enterprise mechanisms are imperfect, and government supervision is ineffectual, jacking up prices and collecting fees arbitrarily, cheating customers by overcharging in order to reap huge profits, cornering the market, and charging monopolistic prices are common practices. In fact they have become epidemic in some sectors of the economy such as circulation and in some industries, further pushing up the overall market price level. Last year the nation's price inspection system uncovered a total of 740,000 cases of illegal pricing and collected 1.1 billion yuan in fines and confiscated funds, up 134 percent and 65 percent respectively compared with a year ago. This shows that price supervision and inspection has been highly successful. It also suggests that price-related law-breaking is still rampant today despite repeated efforts to outlaw it and has become a "public danger."

### III. Price Trends This Year

The latest surge in prices began its retreat phase in November last year. Every month this year, price increases have been down compared with the same period last year. Prices went up 25.2 percent in October 1994 compared with the same month a year ago, 25 percent in November, 23.2 percent in December, 21.2 percent in January 1995, and 19.7 percent in February, and an estimated 19 percent or so in March. However, month-to-month comparisons still indicate a robust inflationary momentum. Prices went up 2 percent in December 1994 compared with November, 3 percent in January 1995 compared with December 1994, and 1.7 percent in February compared with January. While these calculations may be flawed, it is a fact that new inflationary pressure remains very strong. Despite a moderating trend in price increases nation-wide, there are regional disparities. The gaps between rural areas and cities and between the interior and the coastal region continue to widen. In February, for instance, Hunan reported the highest price increase (26.1 percent), more than double that in Tianjin (11.5 percent), which had the lowest rate. Prices rose 22.6 percent in the countryside but just 17.5 percent in cities, a difference of 5.1 percentage points.

The National People's Congress [NPC] set the goal of price regulation and control this year as follows: Ensure an appropriate drop in the rate of price increases this year compared with last year, doing everything possible to limit it to 15 percent or so. Whether or not we can pull this off is more than an economic issue. Also at stake are the prestige of the party and the government, political

stability, the long-term tranquillity and governability of society, and China's international image. Well, then, can we really achieve the goal of bringing inflation under control? Judging from our experience in price work since reform got under way, the level of price increases is mainly shaped by four factors: the overall size of the economy, bumper harvest or crop failure, reform intensity, and psychological expectations. Each of these four factors is a mix of favorable and unfavorable elements this year, so there are two possible answers to the question of whether or not we will succeed in controlling inflation. Two things are critical: Will the various macroeconomic regulatory and control measures be implemented in earnest? Will there be a bumper harvest?

1. The overall economy is good, but there is some cause for concern.

On the positive side, the government has come down unequivocally on the side of the "soft-landing" model ever since it decided to tighten macroeconomic regulation and control in 1993. By and large it has regulated and controlled the macroeconomy with just the right amount of forcefulness, preventing it from overheating while avoiding an economic slump and even stagflation that a hard-landing might bring. We may say that a macroeconomy conducive to a "soft landing" is in place. The GDP grew 11.8 percent last year, still high but lower than that a year ago. Also in 1994, fixed assets investment increased 27.8 percent, off 30.8 percentage points from the previous year; the effective rate was only 15.8 percent after adjustment for inflation. The amount of currency issued was 142.4 billion yuan, less than the projected 180 billion yuan. At year's end, the volume of money in circulation had gone up 24.5 percent, which was 11 percentage points lower than the increase rate a year ago. The gap between aggregate social demand and aggregate social supply was 6.3 percent, down from 7.3 percent a year ago, so the gap has been narrowing. All these macroeconomic indicators show that the macroeconomic climate is changing for the better. A striking feature of the macroeconomic plan this year is that every macroeconomic indicator was set to bring inflation under control; the economy is projected to grow 8 or 9 percent and appropriately austere monetary and fiscal policies are planned along with corresponding lending and investment targets, all rising at rates lower than those of last year. All of this should help bring down inflation. On the other hand, there are already in place a huge amount of fixed assets investment (currently 4,000 billion yuan worth of projects are under construction) and a bloated money supply, whose delayed effects on prices will continue to be felt. In particular, consumption funds have essentially gone out of control; what is

lacking are effective means of regulation and control. Wages and prices will continue to take turns spiraling upward. None of this helps our effort to balance the macroeconomy or check price increases. It is especially worth noting that there is a loud clamor for easing credit; the pressure for an easy-credit policy is considerable. If we make a careless move by relaxing macroeconomic regulation and control thoughtlessly, the just-improved macroeconomic climate will feel new stresses.

2. Bumper harvest or crop failure: uncertain outlook

The household consumption en'geer coefficient is fairly high (over 50 percent) at the moment. Food items account for a sizeable portion of the price index. To some extent, therefore, we may say that in China the retail price index is a "food index" or "agricultural index." In a certain sense, whether or not we meet the price control target will all depend on agriculture. Numerous price-adjustment measures were introduced in 1990 and 1991, yet the rate of price increases was low (2.1 percent and 2.9 percent in those two years, respectively). The main reason is that we had a string of bumper harvests to drive down food prices. As a result, the overall price level went down, not up. During the price surge last year, the pacemakers were food prices, which accounted for almost 12.3 percentage points, or 57 percent, of the total increase (21.7 percent). This year agricultural production is deemed a top priority by all quarters. Agricultural incomes have gone up. The Agricultural Bank alone proposes to lend 57 billion yuan to aid agricultural production, up 26.4 percent from the previous year and a bigger gain than in any other year in recent times. The area sown with the leading crops went up compared with last year; their effective supply is expected to increase. This is the positive side. Nevertheless, reversing the backwardness in agricultural development, resuming production, and increasing supply are a time-consuming process. Also, Chinese agriculture today is still three parts man, seven parts nature. The size of a harvest depends on many variables. The mild weather this winter does not bode well for a good wheat crop. And foreign weather forecasters are predicting an El Nino this year. Any climactic irregularity will only make it that much more difficult to control prices.

3. Problems in regulation and control

There will be far fewer price adjustments with an inflationary effect this year compared with last year. The State Council has decided not to introduce any new price increases in the first half of the year. What limited price adjustments to be unveiled in 1995 are mainly designed to neutralize the effects of price increases last year. This take-it-easy approach no doubt will help hold the price

surge in check in 1995. On the other hand, however, there is a loud clamor for upward price adjustments this year. Although the central government has made it clear that by and large there will be no major price-increasing measures in 1995, preliminary statistics show that as much as 160 billion yuan in price increases are being planned or demanded, a two-fold increase over the value of price adjustments in 1994. In the case of many key commodities, keeping prices unchanged causes quite a few hardships. For one thing, their procurement prices may have gone up; or the prices of raw materials and other inputs may have increased; or government subsidies may have become hard to come by. To look after their self interests, some enterprises are driven to raise prices without authorization or in a disguised form. To balance supply and demand at home, we need to import certain commodities urgently. But China is a major power; every move it makes in international trade is bound to disrupt supply and demand as well as prices on the world market. The very commodities for which China has an acute demand are precisely those whose prices have skyrocketed on the global market. Take wheat, for instance. Its cost, insurance, and freight [CIF], a mere \$130-140 per ton in March 1994, had soared 37 percent to \$180-190 by March 1995. Cotton is currently \$110 per pound, up 80 percent or so from the \$60 it was worth back in early 1994. Chemical fertilizers now cost \$250 per ton, up from \$138 in early 1994, also an 80 percent gain. When the prices of imported commodities go up, they are bound to drive up domestic prices, further complicating the drive to hold down price increases.

#### 4. People expect prices to hold steady with modest increases.

Psychological expectations by the public also affect price movements in major ways. After a dozen years of price reform, the public has become much better at coping with price changes, both economically and psychologically. Worsening public psychological expectations were a leading cause of the high inflation of 1988. This time around, however, there was no widespread inflationary psychology. Not only was there no panic purchasing, no scramble to cash checks, but people are actually putting more money in banks in the form of cash deposits, which helps the drive against inflation. However, we also should see that the public's psychological and economic tolerance for price increases varies enormously from place to place. In some places, the decline in real incomes has accelerated. (That is, per capita living costs income growth has been slower than the rate at which the prices of consumer goods have been rising.) Some low-income households have trouble making ends meet. The grain market in certain lo-

calities has experienced some disruptions. These early signs bear watching.

In short, a comprehensive analysis of the various positive and negative circumstances in the macroeconomy today shows that we cannot afford to be optimistic about the price situation. To achieve the price control target, we must wage a tough battle ahead. It would be an uphill fight fraught with uncertainty. Accordingly, we must fully prepare ourselves, be extra thoughtful about the various difficulties involved, work out the measures more carefully, and do a more solid job. We must resolve to work hard to ensure the realization of this year's price control target.

#### IV. Key Measures To Control Inflation

Since price increases and inflation are a broad reflection of the workings of the national economy, their treatment must likewise be comprehensive. It is a piece of systems engineering and a long-term task. The ten measures announced by Premier Li Peng on 6 September last year as a comprehensive package to fight inflation were reaffirmed by the National People's Congress [NPC] at its meeting this year. The key now is to carry them out in earnest. Here I would like to re-emphasize these four phrases: Unifying our understanding is a precondition for fighting inflation; balancing the total economy, its core; strengthening management, its guarantee; and deepening reform, its base.

##### A. Unify our ideological understanding

This is a prerequisite for implementing all anti-inflation macroeconomic regulatory and control measures. Where is consensus required revolving around the fight against inflation these days? As I see it, there are at least three areas where we need to achieve a consensus. First, we need to unify our understanding regarding economic development policy and economic development model and overcome the tendency to pursue quantitative growth thoughtlessly while overlooking the quality of growth. Is the economic growth rate inherently related to inflation? The history of development in different nations over the past century offers completely different answers. There are two-high (high growth, high inflation) examples; two-low (low growth, low inflation) examples, one-low-one-high examples (low growth, high inflation), and one-high-one-low (high growth, low inflation) examples. The major variables here are the economic growth model and the quality of economic growth. In an extensive economic development model, high economic growth is primarily purchased with high inputs, not scientific and technological [S&T] progress. The results are low outputs and low efficiency, which are inherently accompanied by high inflation. In an intensive economic development model, in contrast, high

growth is secured with S&T progress. The results are low inputs, high outputs, and high efficiency, which typically do not lead to high inflation. For this reason, we must correctly handle the relations among stability, development, and reform; adhere to the guiding principle of sustained, stable, and coordinated development consistently advocated by the party and the government in economic work; keep the national economy growing rapidly in a sustained and healthy manner, with more emphasis on "healthy;" and work harder to improve profitability and the quality of growth. Second, we must all understand the danger and seriousness of inflation and jettison any erroneous ideas, including the notion that inflation is harmless. In the course of economic development, developing nations may experience some degree of inflation because of a natural disaster, for lack of experience in macroeconomic management, or in the midst of the transition from one system to another. But under no circumstances can inflation be adopted as a policy; nor should it be looked upon as a policy option capable of stimulating economic development. Adopting an inflation policy is essentially akin to drinking poison to quench thirst. The road may be paved with flowers, but it leads to a trap. Third, we must achieve a consensus on the need to strengthen and improve, not weaken or eliminate, price management in a socialist market economy. Under the current conditions, in particular, we must tackle price management properly, fully confident that it is the right thing to do.

#### B. Maintaining a firm grip on the total economy

Keeping the macroeconomy broadly in balance lies at the heart of fighting inflation. Toward that end, we must limit demand, on the one hand, and increase supply, on the other.

The key to reining in a surging demand is to control the money supply—the "main faucet"—and three "bifurcation gates." We should continue an austere monetary policy in 1995. Since there is still much excess money in circulation today, money issued over the past few years, we should cut back on the amount issued this year to a level below the actual demand as a means of gradually assimilating the "old" money. The amount of new lending by the state also should be smaller than that in the past three years. Everything should be done to limit the growth of M2 to under 25 percent. Three other controls must be effected to make sure the growth of the money supply—the "main faucet"—is contained, namely investment demand growth, consumption funds growth, and government spending. Lose control on these three "bifurcation gates" and the "reverse mechanism" will force open the main water "faucet;" that is, the money supply.

When it comes to increasing supply, the most important thing is to boost agriculture vigorously and augment the effective supply of agricultural products. Make sure that the acreage planted with such leading crops as grains, cotton, and oil-and sugar-bearing crops does not decrease. Increase inputs and concentrate on raising per unit area yields. Improve profitability. Continue to tackle "food basket engineering" properly. Develop the sources of non-staple food. Ensure market supplies.

#### C. Improve price management.

We must do a good job in the following areas in order to improve price management:

Implement and perfect a price-control objective responsibility system. The core of the system is government leaders assuming responsibility and working together to manage prices comprehensively. We cannot depend on price agencies alone to control prices; that will not work. Instead government leaders at all levels must take charge and all departments involved must cooperate closely with one another. To stabilize prices, we cannot deal with prices in isolation. The focus and the thrust of regulation and control cannot be directed at the price level itself exclusively. Nor should the price restriction and price freeze methods be overused. Instead, we should concentrate on all the factors that influence the overall price level. Examine how these factors operate at each level and organize all departments and all quarters to tackle the problem jointly at all stages, including production, circulation, and management. Achieve the goal of regulating and controlling the overall price level by regulating and controlling the factors that influence price formation. This is the way to create a price-control objective responsibility system using the tools of the market economy.

Enforce discipline strictly. Keep a tight lid on new price-boosting measures. Price reform has taken big strides forward in recent years. In 1995, we should concentrate on assimilating the effects of price adjustments of the last few years and focus price reform on perfecting the price regulatory and control system and developing a body of price-related laws and regulations.

Monitor price trends closely and adopt measures in a timely way. This year we must continue to expedite the creation of a price supervision and monitoring network, improve the working conditions for price monitors, expand the scope of monitoring, and carry out monitoring more frequently to make the results more up-to-date. Relay any information concerning the factors that may cause changes in market prices to the higher levels as soon as possible to provide macroeconomic policymakers with timely and accurate information.

Improve the tools of price regulation and control. Work hard to stabilize the "rice sack" and "food basket" prices. Fund the grain risk fund and nonstaple food regulation fund expeditiously in accordance with existing State Council regulations. Improve the way in which existing nonstaple food regulation funds in the localities are managed. Clarify the funding sources and the purposes for which they should be used by writing them into law in order to institutionalize the system and put it within a legal framework. Strengthen price supervision and inspection. Put a stop to the phenomenon of raising prices and charging fees arbitrarily. Price monitoring and inspection must revolve around the central task of curbing inflation. Intensify price supervision and inspection. Improve the supervision network. Strengthen the methods of law enforcement. Focus on rectifying circulation market order. Inspect the prices of daily necessities as well as agricultural capital goods, targeting grains, cooking oils, pork, vegetables, and chemical fertilizers in particular. Also, inspect administrative and operating fees and charges, emphasizing health care costs and school tuition. Inspect market prices with the purpose of cracking down on price fraud and profiteering.

#### D. Deepen structural reform

Deepening structural reform is in a certain sense the root-and-branch way to fight inflation. Judging from the road this nation has traveled since reform got under way and the open policy was introduced, China experiences a severe bout of inflation every few years. An important reason is that there is as yet no institutionalized basis for controlling inflation so that the dual explosion of investment and consumption keeps rearing its head. The absence of an effective and sensitive regulatory and control system capable of curbing inflation has allowed inflation to recur again and again. As long as enterprises lack budget discipline, as long as an open and fair market system that allows full competition is not yet in place, and as long as a macroeconomic regulatory and control system is less than perfect, the double explosion would remain inevitable, prices and fees would continue to go up arbitrarily, and inflation would happen again and again. Only by deepening three-in-one reform, that is, enterprise reform, market reform, and macroeconomic reform, and other related reform can we have an institutional basis conducive to curbing inflation. And only then can we cure the chronic malady of inflation. To begin with, deepening structural reform entails creating the macroeconomic basis for curbing inflation and speeding up enterprise reform to give enterprises an operating mechanism that enables them to exercise decision-making authority in their operations and become accountable for their profits and losses and capable of self-development. By creating an

operating and decision-making mechanism and an income distribution restraint mechanism, enterprises can become bona-fide enterprises. Deepening structural reform also involves creating a market system that facilitates the drive against inflation, deepening the reform of the circulation system, formulating market laws and regulations, standardizing market conduct, encouraging reasonable competition, restraining monopolies, and preventing profiteering. Third, create and perfect a macroeconomic regulatory and control system conducive to curbing inflation. Consolidate and further the fruits of financial reform. The People's Bank must strive to become a bona-fide central bank while remaining relatively independent. The issue of money must be carried out in accordance with the law. Special banks must be commercialized. Set up banks for basic industries to discharge the responsibility of making loans to finance key projects in those industries. For the moment, we must further foreign trade reform and introduce a project owner responsibility system. Fourth, establish and perfect a new social security system and introduce a compensation system customized to suit the disparate circumstances of different workers that will kick in after prices go up. In particular, a policy of protection should be adopted toward the low-income strata. Everything should be done to minimize any possible socially destabilizing effects of price reform and the restructuring of the economic system.

In short, we can sum up the drive to accomplish the price-control objective this year in four words: difficulty, resolution, methods, hope. Provided people from top to bottom and in every quarter unify their thinking and work steadfastly to implement in earnest every macroeconomic regulatory and control measure laid down by the central government, provided we reap a bumper harvest, and barring a major natural disaster, the price control objective can be and will be accomplished.

(Writer is vice minister of the State Planning Commission.)

#### Foreign Trade & Investment

##### MOFTEC Minister on Foreign Trade, WTO

HK2508034395 Hong Kong CHING CHI TAO PAO  
in Chinese 31 Jul 95 pp 3-5

[By staff reporters Chen Ke-kun (7115 0668 2492), Chu Mao-chai (2612 3029 7872), and Hu Hsiao-yu (5170 2556 3768); "Minister Wu Yi on Foreign Trade Situation, GATT Talks, and Sino-U.S. Trade"]

[FBIS Translated Text] Wu Yi, minister of foreign trade and economic cooperation, gave an interview in Beijing to reporters from this magazine and several Hong Kong

newspapers on the morning of 24 July. Wu Yi told the reporters that China's foreign trade continued to grow during the first half of this year; the amount of foreign capital put to actual use increased and the quality of the use of funds improved; the practice of foreign aid was reformed; and reform in the management system of foreign trade and economic cooperation was intensified. Minister Wu Yi also answered reporters' questions on China's entry into the World Trade Organization [WTO], Sino-U.S. trade and economic ties, and the impact of the new tax reimbursement rate for exports on domestic enterprises engaged in export business.

#### Foreign Trade in the First Half of 1995 Bears Five Characteristics

Minister Wu Yi said: During the first half of this year, China's foreign trade preserved favorable growth momentum. In the January-June period, the total foreign trade volume hit \$126.4 billion, up 29.6 percent over the same period last year. Of this, exports contributed \$69.79 billion, up 44.2 percent, and imports \$56.61 billion, up 15.2 percent. Foreign trade for the first half of this year bears the following characteristics.

1. Exports continued to grow at a high speed while imports also increased, achieving a favorable trade balance.
2. The export product mix continued to improve. In the first half year, the proportion of manufactured goods of total export volume rose to 84.8 percent from 83.1 percent for the same period last year.
3. General export trade grew fairly rapidly. From January to June, general export trade increased by 44.9 percent over the same period last year. By late June, China's spot exchange reserves came to \$62.6 billion, of which 80 percent was contributed by general export trade.
4. Foreign trade of foreign-funded enterprises continued to grow. In the January-June period, the foreign trade volume of foreign-funded enterprises registered a 29.4-percent increase over the same period last year and accounted for 36.7 percent of China's total foreign trade volume.
5. China's foreign trade achieved steady growth in various foreign countries and regions. During the first half year, China maintained and developed trade ties with 211 countries and regions around the world, and its trade with its key trade partners continued to expand.

#### In the Second Half Year Every Unfavorable Factor Should Be Taken Into Account

While stressing that economic recovery worldwide will help promote China's foreign trade, Minister Wu Yi listed the unfavorable factors never to be ignored in the latter half of the year. 1) Export enterprises are pressured by the increased cost of export goods brought about by persistent inflation; 2) operations with respect to foreign trade are in disorder; 3) trading markets are excessively concentrated in a small number of areas; 4) there are restrictions imposed on China's export business by foreign countries favoring protectionism; 5) the system of tax reimbursement for export remains imperfect; and 6) a higher interest rate for loans increases export enterprises' capital costs.

In light of the above unfavorable factors, Wu Yi called on foreign trade departments to tap internal potential, improve management, and improve work efficiency. In her view, the \$240 billion foreign trade quota for 1995 can be fulfilled.

#### Stress Should Be Placed on Quality in Utilizing Foreign Funds

Minister Wu Yi said: China put a greater amount of foreign capital to actual use in the first half year and, in particular, greatly improved the quality of the use of foreign funds. From January to June, 15,000 foreign-funded projects were approved with a contracted amount of \$30.9 billion and a utilized amount of \$16.37 billion. By late June, China had approved a total of 237,000 foreign-funded enterprises, of which 100,000 have gone into operation, with actual use of overseas funds standing at \$100 billion. Foreign investment shows three features this year.

— The quality of foreign investment has improved somewhat and the amount of foreign capital put to actual use has also increased. In the first six months the number of foreign-funded projects and the contracted amount of foreign funds dropped to a certain extent, but actual investment grew by 11.2 percent over the same period last year. We became more choosy about foreign-invested projects, rejecting processing projects and those causing pollution. Foreign capital was increasingly channeled to technology-intensive and capital-intensive industries.

The foreign investment mix has improved. The state recently published the "Provisional Regulations on Guiding Foreign Investment Orientation" and the "Guiding Catalogue for Foreign-Invested Industries." Many foreign businessmen take great interest in investing in infrastructure facilities, as underground railroads, light railroads, ports, power plants, and telecommunication

projects have become favorite items. Strict control must be exercised over foreign investment in real estate.

— Foreign investment items are of increasingly larger scale. More and more famous multinational corporations have come to China to make investments. The average amount of foreign investment projects was \$1.71 million last year; it jumped to \$1.9 million this year. Usually big companies invest a greater amount of money. Wu Yi said that China will utilize foreign capital in a positive, reasonable, and effective way in the future in accordance with the "Guiding Catalogue for Foreign-Invested Industries." She stressed the need to attach importance to quality in utilization of foreign funds.

When asked how China will attract foreign investment to the central and western regions, Wu Yi said: The preferential policy is under study. Development of the central and western regions will be covered in the "Ninth Five-Year Plan." To attract foreign investment, basic infrastructure construction must be stepped up in these regions.

#### **Reform of Foreign Aid Practice Was Advanced**

Minister Wu Yi told the reporters: The practice of aiding foreign countries was reformed considerably in the first half of the year. In the past we helped foreign countries by offering free aid, interest-free loans, and low-interest loans. This year we will increase the amount of small free aid but will replace interest-free loans with preferential loans whose interest is footed by the government; that is, the loan will be provided by China's Import-Export Bank and the interest paid by a foreign-aid fund. We will mainly take measures to encourage China's enterprises to set up joint venture enterprises with recipient countries in a bid to help these countries with their industrial and economic development, rather than launching memorial-type [ji nian bei shi 4764 1819 4301 1709] projects in these countries as we did in the past.

Minister Wu Yi said: Some recipient countries are not accustomed to the new practice for the time being. For those countries which are capable of paying off their debts, we will firmly offer loans whose interest is paid by the government. For those really poor countries, we will increase the amount of free aid. This reform represents a change in our concept, and it will take time for the Third World recipient countries to adapt themselves to the change. China has sent 2,600 personnel to 64 countries. They have worked hard for the local people.

#### **Deepen Reform of the Management System of Foreign Trade**

Minister Wu Yi said: Since the beginning of this year, the reform of the foreign trade management system has been deepened. While the reform measures introduced last year were improved, concentrated efforts were made to formulate supportive measures. This year we have focused on reforming state-owned enterprises engaged in foreign trade and economic cooperation by changing the way they operate and improving their internal management. The State Council has decided to develop the China National Chemicals Import and Export Corporation into China's first comprehensive commercial society [shang she 0794 4357] on a trial basis, and selected the China National Chemicals Import and Export Corporation [as published] and the China National Metals and Minerals Import and Export Corporation to experiment with the enterprise group, and the China National Cereals, Oils, and Foodstuffs Import and Export Corporation, the China National Machinery Import and Export Corporation, and the China National Complete Plant Import and Export Corporation to experiment with the modern enterprise system. Again, we also reformed enterprises under the Ministry of Foreign Trade and Economic Cooperation by changing their personnel appointment system and monetary system, improving their management, and giving different guidance to suit different conditions.

Minister Wu Yi also told the reporters that China made rapid progress in technological import and export. In the first half of the year, 160 technological items mainly for energy, iron and steel, machine-building, and chemical industries were imported with the contracted amount reaching \$2.26 billion, and 102 technological items exported with the contracted amount reaching \$1.3 billion. In the same period, the Ministry of Foreign Trade and Economic Cooperation approved the setting up of 97 enterprises outside the borders involving investment of \$88 million. In the January-May period, 8,200 contracts for construction projects abroad were signed with the contracted amount totaling 3.7 billion yuan, up 40 percent over the same period last year. Wu Yi also gave a brief account of how China had helped foreign-trade enterprise greatly their costs, improved the compensated bidding system with respect to quotas on export commodities, and strengthened the role of chambers of commerce in promoting foreign trade and in responding to complaints about anti-dumping activities.

#### **On China's Entry Into GATT and WTO**

Whether China will become an observer of or be admitted into the WTO is under negotiation. People at

home and abroad are much concerned about the result. Reporters from this magazine inquired of Wu Yi about the matter.

Minister Wu said: Eight years have been spent in negotiations on restoring China's status as a signatory state to GATT. Last year, China formally demanded an end to the negotiation by 31 December 1994. Why did we set the deadline? Because if there was no deadline and the matter was postponed indefinitely, the requirements would escalate higher and higher.

China's stance evoked fairly strong repercussions around the world. Evidently all parties concerned are now able to consider China's request to join the WTO more cool-headedly. Minister Wu Yi stressed: If China is not allowed to join the WTO, this would be detrimental to both China's and the world economies.

When asked whether China is really willing to join the world economy and whether China would continue to pursue the reform policy and open to the outside world after being admitted into GATT, Minister Wu Yi said: China is certainly willing to join the world economy. At the Asia-Pacific Economic Cooperation forum, China joined other countries in signing a declaration clearly stating that China will liberalize trade by the year 2020. China's policy of reform and opening up to the outside world meets the needs of development and building up a socialist market economy. This policy will never change regardless of whether or when China joins the WTO.

#### Sino-U.S. Moves Ahead Amidst Conflicts

Reporters from this magazine asked Minister Wu Yi to assess the prospects of Sino-U.S. trade in light of the existing problems with their political relations.

Minister Wu Yi said that she has been of the opinion that Sino-U.S. trade has moved ahead amidst conflicts and developed through struggle. The broad masses of American consumers are very much interested in Chinese goods while the increasingly expanding China market is attractive to U.S. businessmen. The economies of the two countries are complementary to a great extent, so they can develop bilateral trade to mutual benefit. Wu Yi said: The United States has gone too far by allowing Lee Teng-hui to make a visit. We demand that the United States return to the correct course charted by the three Sino-U.S. joint communiques to do away with the grave consequences brought about by Lee's visit.

#### Lower Tax Reimbursement Rate for Exports Has Little Effect

A reporter asked whether China's decision to lower its tax reimbursement rate for exports from 17 to 14

percent, which took effect on 1 July this year, has had an unfavorable impact on China's exports.

Wu Yi said that this has had little impact. What matters now is whether the tax refund is made as required. If export enterprises can get sufficient refunds in time, the cut will have little impact on exports. After pointing out the factors affecting exports, Minister Wu said that these factors can only be removed by tapping internal potential, improving management, and raising economic efficiency.

#### Sino-Japanese Auto Parts Venture Planned

OW2408223795 Beijing XINHUA in English  
1541 GMT 24 Aug 95

[FBIS Transcribed Text] Guiyang, August 24 (XINHUA) — The Mitsui Group, one of the six-largest Japanese group companies, has agreed to partly fund a Sino-Japanese auto-parts joint venture in southwest China's Guizhou Province.

The Chinese side of the joint venture, the Mitsui-Huayang Auto Parts Co. Ltd, is the Huayang Electrical Engineering Plant under the Guizhou Aviation Industry Group.

The two sides will invest three million US dollars this year and another 1.5 million US dollars next year in the joint venture, which will produce car locks and other automobile components.

Of the total investment, 45 percent will come from the Mitsui Metals Company, 15 percent from Mitsui & Co. Ltd, and 40 percent from Huayang, according to an agreement they signed.

The venture, with a designed annual production capacity of 200,000 to 300,000 sets of locks, is expected to earn a profit of over 1.4 million yuan from a sales volume of 20 million yuan when the project is completed in 1996.

Official estimates have put the annual growth rate of China's auto industry at eight to nine percent over the next 15 years, with automobile output likely to reach three million units by the year 2000 and six million units by 2010.

Currently China has 10 million motor vehicles in use.

#### Report on Growth of Trade With Indonesia

OW2408140795 Beijing XINHUA in English  
1351 GMT 24 Aug 95

[FBIS Transcribed Text] Beijing, August 24 (XINHUA) — Indonesia now ranks as China's third-largest trading partner among the Association of Southeast Asian Nations after ten years of steady development in economic

and trade relations between the two countries, according to the Chinese Ministry of Foreign Trade and Economic Co-operation (MOFTEC).

China's customs statistics show that in the first half of this year the bilateral trade volume reached 1.526 billion US dollars-worth, an increase of 51.2 percent over the same period of last year.

Of that figure, China's export volume came to 624 million US dollars-worth, and the import volume was 902 million US dollars-worth, up 56 percent and 48.1 percent, respectively, compared with the corresponding period of last year.

In 1994 the trade volume between the two nations topped 2.64 billion US dollars-worth, more than six times the 1985 figure. Since the signing of the direct trade understanding memorandum 10 years ago, their accumulated trade volume has amounted to 14.8 billion US dollars-worth.

On the occasion of the 10th anniversary of the signing of the memorandum, a 50-member delegation of the Indonesia-China Economic, Social and Cultural Association led by its president Sukamdani Gitosardjono [spelling of name as received] is now paying a visit to China.

The delegation, mainly consisting of leading entrepreneurs and business people of Indonesia, have made close contacts with their Chinese counterparts. They have also taken part in the China-Indonesia Symposium on Trade, Economy and Investment, and probed the prospects for trade co-operation together with people from China's business and trade circles.

Sukamdani said he believed that Indonesia could further increase its investment in China by taking advantage of its rich natural resources, such as palm oil and timber, to set up processing projects in China, thus the products would be able to enter the Chinese market directly.

He pointed out that China can build textile plants in Indonesia on the basis of that country's abundant cotton production and sell the products in Indonesia.

MOFTEC Deputy Minister Sun Zhenyu pointed out that China and Indonesia enjoy a sound foundation for economic co-operation and that there is great potential to be exploited in this regard.

#### **Foreign Financing of 3 Gorges Project Suspended**

**HK2508034095 Hong Kong CHING CHI TAO PAO in Chinese 7 Aug 95 No 2431, p 29**

[From the "China Economic News" column: "Three Gorges Project Suspends External Financing Plan"]

[FBIS Translated Text] As China's foreign exchange reserves have recently seen a constant increase, an external financing plan for the Three Gorges key water control project will be suspended this year. The original plan to secure a foreign loan of \$100 million this year for construction of the project has been shelved. Instead, the loan will be provided by the Bank of China [BOC]. In addition, the fund-raising plan to issue bonds and shares overseas will also be postponed until next year. Currently, Merrill Lynch and Morgan Stanley of the United States and Japan's Nomura Securities are conducting surveys before the bond issue.

The Three Gorges project will provide a market opportunity that should not be neglected for the international construction, mechanical, electrical, and electronic information sectors. Large mixing equipment, transport equipment, and lifting equipment in construction and mechanical areas as well as hydroelectric generators, transformers, converters, and other permanent electrical equipment will rely primarily on imports.

It is said that the second phase of the Three Gorges project requires 13 million cubic meters of concrete, for which bidding has been launched worldwide. More than 10 internationally renowned manufacturers from the United States, Canada, Brazil, Italy, Germany, and Japan have been invited to participate in the bidding.

#### **IPR Forum Held; System 'Being Improved'**

**OW2408142795 Beijing XINHUA Hong Kong Service in Chinese 1242 GMT 20 Aug 95**

[ "System for Protection of Intellectual Property Rights Being Improved in China" — ZHONGGUO XINWEN SHE headline]

[FBIS Translated Text] Beijing, 20 Aug (ZHONGGUO XINWEN SHE) — According to a reporter's report, China has set up "intellectual property right courts" in more than 10 provinces and cities and courts across the country have handled a total of over 6,000 cases involving conflicts in intellectual property rights. The system for the protection of intellectual property rights is being improved in China.

The above report came from the "Forum on the Protection of Intellectual Property Rights" held at the Great Hall of the People on 20 August. The forum was sponsored by ZHONGGUO XINWEN SHE. Ma Shanchun,

ZHONGGUO XINWEN SHE deputy director, said the purpose of holding the forum was to implement the guidelines of the "Decision on Further Strengthening Work to Protect Intellectual Property Rights" made by the Chinese Government, constantly improve the order of the socialist market economy, protect the interests of brand name Chinese products and of the consumers, and crack down on fake and shoddy goods.

Wang Guangying, vice chairman of the Standing Committee of the National People's Congress, Qian Zhengying, vice chairman of the Chinese People's Political Consultative Conference National Committee, and dozens of officials concerned and specialists attended the forum.

During their speeches, Zheng Chengsi, director of the Intellectual Property Right Center of the Chinese Academy of Social Sciences, and his colleagues, gave an introduction to the situation and development trends of the legislation and enforcement of laws on intellectual property rights in China. It was learned that within a short period of about a dozen years, China has fulfilled the tasks of legislation for the protection of intellectual property rights, which took some industrialized countries several decades and even several centuries to fulfill. Since the beginning of the 1990's, China has taken a series of measures to constantly perfect and strengthen the protection of intellectual property rights. For example, China has enthusiastically joined relevant international conventions and revised existing laws and regulations to conform with international conventions; energetically formulated new laws and regulations and expanded the scope of protection for intellectual property rights; constantly strengthened administrative management in this respect; and gradually established a scientific research and education system for the protection of intellectual property rights. At present, more than 20 provinces, regions, and municipalities in China have set up, one after another, the intellectual property rights official work meeting system.

Concerned leading officials of the Standing Committee of the National People's Congress, Supreme People's Court, Development Research Center of the State Council, and Office of Overseas Chinese Affairs of the State Council also attended the forum. It was disclosed that the State Council is considering amending the "Trademark Law" again to further conform with international protection practices. In addition, a law specially for the protection of commercial secrets is being drafted.

The Guangdong Nanhai Lichang Household Electrical Appliances Company Limited also attended the forum as a specially invited representative. Feng Guoming, chairman of the board of directors and concurrently gen-

eral manager of the company, spoke at the forum. He called for further improving the legal system for the protection of intellectual property rights and strengthening administrative management in the protection of intellectual property rights so that the order of the market economy can improve with each passing day and brand name products can be protected.

#### **U.S. Firm To Build Plant in Guangzhou**

*OW2408233795 Beijing XINHUA in English  
1228 GMT 24 Aug 95*

[FBIS Transcribed Text] New York, August 24 (XINHUA) — Avon Products, Inc. today announced that its Chinese subsidiary plans to build a new 40-million-dollar manufacturing plant in Conghua in Southern China to support the company's aggressive expansion in that country.

Construction is expected to begin in the third quarter of this year and the plant should be operational in the first quarter of 1997.

At full capacity, the facility will employ up to 900 workers and produce up to 120 million units of cosmetics products including lipsticks, skin creams, and perfumes. Most of the products manufactured there will be sold in China.

The new plant will replace Avon's existing leased facility, located about 30 miles away in Guangzhou, which has a maximum capacity of about 35 million units and currently employs about 350 workers.

Avon first entered China in 1990 and has invested over 30 million dollars to expand its operations there, mainly in the form of working capital and inventories. By year-end 1995, the company will operate 43 branches, or distribution centers, that will serve more than 40,000 active sales representatives. Avon's regional offices are located in Guangzhou and Shanghai. Its sales in 1995 are expected to nearly double from 1994's level.

"We have identified China as our number one expansion market and we are very pleased with our progress to date," said James Preston, Avon's chairman and chief executive officer. "Our direct selling system can thrive in emerging economies such as China, which are growing rapidly, and where consumer demand is high and the retail infrastructure is relatively underdeveloped."

#### **Shandong Approves Overseas-Funded Projects**

*OW2408135995 Beijing XINHUA in English  
1257 GMT 24 Aug 95*

[FBIS Transcribed Text] Jinan, August 24 (XINHUA) — East China's Shandong Province had approved

20,694 overseas-funded projects by the end of last year, with a contracted foreign investment of 19.22 billion US dollars, and actual foreign investment of 6.77 billion US dollars.

Agricultural development, an integrated industrial system, convenient transportation and communications, as well as abundant energy and raw materials in Shandong give foreign investors many investment choices.

To sustain the foreign investment trend in the coming years, Shandong has come up with guidelines for foreign investment, expanded investment channels, attracted multi-national corporations, and made full use of state and provincial preferential policies.

#### **\*MOFTEC Outlines Enterprise Reform Program**

*95CE0553A Beijing GUOJI MAOYI WENTI /INTERNATIONAL TRADE JOURNAL] in Chinese No 7, 6 July 1995 pp 23-25*

[Article: "Overall Plan For Intensifying Reform of Enterprises Directly Subordinate to a Ministry in 1995"]

[FBIS Translated Text] An overall plan for intensifying reform of enterprises under direct MOFTEC jurisdiction is hereby presented by way of carrying out the spirit of the Third Plenary Session of the Fourteenth Party Central Committee and the decision of the State Council on the intensification of enterprise reform, and by way of abiding by leading ministry and party group requirements for "making enterprise reform the focus of reform in 1995" as they relate to the present status of foreign economic cooperation and trade businesses.

#### **Guiding Thought**

Intensification of reform of directly subordinate enterprises must take the basic plans and policies of the central authorities regarding reform of state-owned enterprises as a guide, putting into effect the "Foreign Trade Law" and associated laws and regulations. It requires both enlivening enterprises and increasing macroeconomic control over enterprises to bring about a gradual meshing of the operating mechanisms of enterprises with international practice. It also requires close attention to the good handling of the correlation between enterprise reform and development, making invigoration and good performance of foreign trade enterprises, and moving ahead with the development of all operational tasks centering around foreign trade exports the point of departure and the point of return for reform.

We must relate work closely to circumstances in directly subordinate enterprises, bearing in mind the basic need for "clarifying equity rights, spelling out rights and responsibilities, separating government administration and enterprise management, and managing scientifically. We

must apply the principle of providing tailored guidance, emphasize key points, link work in selected spots to work in broad areas, and move ahead steadily so that enterprise reform scores solid advances.

#### **2. Tailored Guidance for Directly Subordinate Enterprises' Operation of Many Kinds of Enterprise Reform Pilot Projects**

1. The China National Metals and Minerals Import and Export Corporation, and the China National Chemicals Import and Export Corporation have been included among 55 national enterprise pilot project units to run pilot projects according to unified national plans. In addition, the China National Chemicals Import and Export Corporation is to operate a comprehensive business agency pilot project that was authorized in a written reply from the State Council.

2. The China National Cereals, Oils, and Foodstuffs Import and Export Corporation, the China National Machinery Import and Export Corporation, and the China Complete Plant Export Corporation have been included in a State Council name list of 100 enterprises to run modern enterprise system pilot projects. They will run the pilot projects approved in the State Council "Pilot Project Plan."

3. In order to widen the application of pilot projects, summarize experiences, and promote experiences throughout all enterprises subordinate to the MOFTEC, the China National Light Industry Import-Export and Service Corporation, the China National Technical Import Corporation, and the Chinese Overseas Engineering Corporation will serve as pilot project enterprises for the MOFTEC's founding of a modern enterprise system. They will operate according to the State Council-approved "Pilot Project Plan."

4. Light industry import-export, machinery import-export, chemicals import and export, instruments import and export, technical import, and trade development enterprises were selected from among enterprises that had run internal staff member and worker share-holding pilot projects to be given strong guidance. State Council-approved pilot project methods were used, each enterprise receiving approval as it matured for the running of standardized pilot projects.

5. Ten enterprises in foreign trade transportation, chemical industry, cereals, oils, and foodstuffs, arts and crafts, metals and minerals, packaging, machinery, textiles, produce and animal by-products, and complete plant import-export corporations, have been included in pilot projects for the establishment of supervisory committees in 1,000 enterprises nationwide. These include the

Chinese National Foreign Trade Transportation Corporation in the first group of thirty pilot project enterprises that will have to run pilot projects according to uniform requirements and uniform standards. As import-export corporations responsible for some monopoly goods, the China National Chemicals Import and Export Corporation, and the China National Cereals, Oils, and Foodstuffs Import and Export Corporation must operate pilot projects as early as possible in order to spur completion of the monopoly goods import-export management system.

6. Combining and merging enterprises is encouraged to promote the economies of scale. First, enterprises whose businesses are the same or similar are encouraged to merge. Second, different types of enterprises whose business is related or that cooperate closely with each other should be encouraged to merge to expand the scale of their business. Directly subordinate enterprises may also merge with local companies, or they may form joint ventures or cooperative ventures with foreign firms. Anything may be tried for which conditions exist.

7. Intensify investigation and study for further straightening out of the internal administrative systems of bases, foreign trade transportation, and packaging corporations.

8. Enterprises not included in the above reform pilot projects should also carry out active reforms for establishing a modern enterprise system as the circumstances of their own enterprise permit.

### 3. Several Reforms That All Directly Subordinate Enterprises Must Carry Out

1. Accelerate labor system reform. Enterprises must diligently enforce the "Labor Law," fully instituting a labor contract system as MOFTEC's work plans and local people's governments require. Staff and workers in enterprises must sign labor contracts with their enterprise, thereby founding a new labor relationship suited to the requirements of a socialist market economy, and founding an employment system in which both the enterprise and the staff and workers choose each other. They must a proper job of placing surplus staff and workers.

2. Intensify reform of the personnel system. Institute a managerial personnel hiring system and phase out the system whereby state cadres serve as managers. Enterprises must set up a management personnel administration and testing system that ensures that management personnel may be promoted and demoted.

3. Carry out distribution system reform. Abolish the contracting system in all enterprises, instituting a management by objective system instead. Set up and improve internal distribution stimulus mechanisms, limi-

tation mechanisms, and supervision mechanisms in enterprises. Amplify and improve the total wage bill management and macroeconomic regulation and control systems in enterprises according to macroeconomic regulation and control, level-by-level tailored management, and enterprise distribution decision making principles and requirements. Uphold the principle of linking enterprise total wage bills to enterprise economic returns, enterprises whose business is mostly exports instituting a distribution system in which wages are paid partly on the basis of United States dollar export earnings, and enterprises whose business is mostly other than exports instituting a distribution system in which the total wage bill is linked to the amount of profits and taxes paid to the state. When enterprises keep the rate of increase in the total wage bill lower than the rate of increase in the enterprise's economic returns, and the rate of increase in the average earnings of staff and workers lower than the rate of increase in the enterprise's labor productivity rate, an enterprise may itself set the method of distribution and level of wages and bonuses within the total wage bill approved by MOFTEC. Enterprise staff member wage distributions must abide by the principle of distribution according to labor, the individual earnings from labor of staff members and workers being linked to labor skills and labor contributions to put an end to egalitarianism. Enterprises must draw up wage and bonus distribution implementation regulations based on their individual circumstances. These implementation regulations must be transparent so that staff members and workers can see clearly their own achievements and their own remuneration as a means of making fullest use of the stimulus role of wages and bonuses.

4. Promote actively reform of the social security system. All foreign economic and trade enterprise shall participate in retirement and unemployment social security as national and local government regulations require.

5. Institute an assets operation responsibility system. Enterprises must set up an assets operation responsibility system to assume operating responsibility for all corporate property, and to maintain and increase the value of net assets. An enterprise's legally designated representative shall bear operating responsibility for corporate assets within the enterprises and for maintaining and increasing the value of net assets. MOFTEC and the legally designated representative of enterprises shall sign an assets operation responsibility agreement based on verified enterprise corporate assets and the amount of net assets, and individual earnings shall be linked to this agreement.

6. Improve enterprise internal administration, perfect all administrative systems, and raise the overall caliber of

enterprises. Carry out pervasive campaigns to "transform mechanisms, emphasize management, improve internal strength, and increase returns." The democratic centralism system must be bolstered, decision making must be made more democratic, both democracy and centralism based on democracy existing at the same time. A good job must be done of setting up leadership teams, and of establishing and perfecting internal responsibility systems and assessment systems within enterprises. More must be done to build the staff and worker corps, and to stir the enthusiasm of all. A real effort must be made to improve basic management work, to implement the "Accounting Law," and the "Auditing Law," and to amplify the enterprise financial accounting system and the internal auditing system.

7. All directly subordinate enterprises must increase control over constituent overseas enterprises. During 1995, they must complete inventory of the fixed assets and circulating funds of overseas enterprises, and take further steps to prevent the loss of assets from overseas enterprises.

8. Ways and means of making use of the central political role of enterprise party organizations must be actively explored to do good ideological and political work. Full use must be made of the fortress role of party organizations and the vanguard model role of party members.

9. The role of congresses of workers and staff must be amplified. The organizational structure of enterprise congresses of workers and staff must be improved, their democratic management function enhanced, and full respect accorded to, and use made of staff members' and workers' roles as masters.

10. MOFTEC must improve control over the head person in directly subordinate enterprises. The income of head persons must be closely linked to how well the value of the enterprise's state owned assets is maintained and increased, and the enterprises' profit and tax norms. MOFTEC must also examine and approve the head person's benefits such as housing. MOFTEC has already promulgated "Regulations on Auditing the Economic Responsibility of Managers Departing From MOFTEC Enterprises," which must be fully enforced.

In addition to the above reforms, all directly subordinate enterprises must act according to the "remedy-whatever-is-lacking" principle as MOFTEC and party organization requirements for enterprise reform applied to the enterprise's circumstances warrant. They must propose ideas and specific measures for internal reform of enterprises to score solid advances in each directly subordinate enterprise's founding of a modern enterprise system in 1995.

#### 4. Efforts to Improve External Environment for Enterprise Reform

1. Institute autonomy in enterprise operation fully and completely. The fourth enterprise operating decision authorities that "Mechanism Transformation Regulations" prescribe must be applied one by one. They may not be retracted under one guise or another.
2. Coordination between central government agencies concerned and local governments must be improved, timely help provided to solve the various difficulties and problems that enterprises report thereby freeing directly subordinate enterprises from difficulties and anxieties.
3. An agency must be set up as soon as possible to administer and manage centrally the state-owned assets of enterprises directly subordinate to MOFTEC. All directly subordinate enterprises must subject themselves to centralized assets control and ensure that state-owned assets maintain value and increase in value.
4. MOFTEC agencies must improve their work style, increase their work efficiency, management, and service, enhance their concept of handling affairs according to law, support directly subordinate enterprises in actively exploring and boldly reforming, and support enterprises in instituting strict management, and in coordinating and solving the various problems that occur in enterprise reform.

#### 5. Enterprise Reform Direction and Planning of Implementation Steps

We have already set up a MOFTEC Enterprise Reform Leadership Team to improve leadership in intensifying enterprise reform, and we have established a subordinate office responsible for day-to-day work. All enterprises must set up reform committees and offices in their own enterprise for the purpose of providing concrete guidance and to organize the conduct of reform work in the enterprise. The MOFTEC leadership team and its office have drawn up concrete implementation methods for the various reforms that units concerned have made regarding this "Plan" for the purpose of regularizing and guiding the reform work of subordinate enterprises.

In the reform implementation process, the MOFTEC Enterprise Reform Leadership Team and its office shall perform the following tasks: (1) Organize personnel for regular supervision and checks of directly subordinate enterprise reform work. Each directly subordinate enterprise must set up a summarization and reporting system for the organization, inspection, and conduct of this work. (2) Organize personnel to do enterprise reform investigation and research work in order to solve problems as they occur. (3) Do a good job of exchanging, summarizing, and spreading experiences in reform. Convene

meetings, from time to time, for the exchange of experiences in the intensification of subordinate enterprise reform; summarize and spread exemplary experiences in enterprise reform; and do a painstaking and good job of planning enterprise reform work.

The specific steps to be taken in carrying out the reform of directly subordinate MOFTEC enterprises have been preliminarily planned as follows:

1. *Preparatory Stage (January through March).* MOFTEC draws up reform implementation plans and methods based on the state-formulated or approved "Corporation Law," the "Mechanism Transformation Regulations," and "Pilot Project Plans" as they apply to directly subordinate enterprises. A directly subordinate enterprise reform work conference is convened from 6 through 8 March to study and plan specific tasks in enterprise reform. Each enterprise draws up specific reform plans and implementation regulations for its own enterprise based on the implementation plans and methods that the Ministry has drawn up, relating them to the specific circumstances in its own enterprise, and to be put into effect following Ministry approval.

2. *Implementation Stage (April through December).* Each enterprise puts into effect its own reform plans and methods.

3. *Summarization Stage (December)* Each enterprise diligently summarizes reform experiences and lessons, and writes a reform work report. MOFTEC uses the summarization of experiences as a basis for proposing measures for the improvement, consolidation, and full promotion of a modern enterprise system for subordinate enterprises, and sets forth ideas for the spread of directly subordinate enterprise reform experiences among MOFTEC enterprises throughout the country.

The various reforms that directly subordinate enterprises carry out in 1995 are a part of the work of the overall enterprise reform systems engineering project. MOFTEC enterprise reform leadership teams must act according to CPC Central Committee, State Council, and ministry and party leading organization requirements. Using the organization and direction of 1995 enterprise reform, and steady summarization of experiences as a basis, they must continue to do a good job of enterprise reform work.

\*MOFTEC Minister on Enterprise Reform  
95CE0553B Beijing GUOJI MAOYI WENTI  
[INTERNATIONAL TRADE JOURNAL] in Chinese  
No 7, 6 July 1995, pp 3-5

[Article: "Minister Wu Yi's Speech at the MOFTEC Directly Subordinate Enterprise Reform Work Conference (6 March 1995)"]

[FBIS Translated Text] By way of carrying out the spirit of the Third Plenary Session of the Fourteenth Party Central Committee, and the decisions of the CPC Central Committee and the State Council regarding intensification of state-owned enterprise reform, and in line with the CPC Central Committee's and the State Council's call to make intensification of state-owned enterprise reform the emphasis of economic system reform in 1995, MOFTEC's leading party team has proposed making reform of MOFTEC's directly subordinate enterprises the emphasis of reform in 1995. Although we all know that the CPC Central Committee and the State Council have set forth the 16 character policy for the intensification of state-owned enterprise reform and for founding a modern enterprise system, just how we should go about doing this so that it becomes more than mere lip service or just a slogan merits serious study. Acting on the MOFTEC leading party team decision, MOFTEC set up a foreign trade enterprise reform leadership team, deputy minister Liu Shanzai [0491 1472 0961] serving as team leader, and deputy minister Chen Xinhua [7115 2450 5478] serving as deputy team leader. The leadership team got right to work, acting very quickly on an overall plan for directly subordinate enterprise reform (a working draft), and several specific measures. I hope that everyone will discuss this draft conscientiously at this conference and amend it. This plan will be tried out first in MOFTEC directly subordinate enterprises. Once experience has been gained, it will be applied throughout the foreign trade and economic cooperation system nationwide. Reform of directly subordinate enterprises is an important task for MOFTEC during 1995. We are determined to give it close attention. The main task of this conference is to study, plan, and map out the tasks in the year's intensification of reform of directly subordinate enterprises, and make real strides in further enlivening and improving foreign trade enterprises to move ahead with the intensification of reform of directly subordinate enterprises, and establishing a modern enterprise system. Deputy minister Liu Shanzai will talk later about the master plan, specific arrangements, and deployments for reform. I am not prepared to say much about this here. I want to focus on the following three problems.

**Full Recognition of the Urgency and Importance of the Intensification of MOFTEC Subordinate Enterprise Reform**

Foreign trade enterprises have gone through several rounds of major reform since the beginning of foreign trade system reform in 1979. Specifically, the external environment for MOFTEC's directly subordinate enterprises underwent major changes in 1988 when the contract management responsibility system was promoted in foreign trade enterprises, in 1991 when subsidies for foreign trade enterprises were abolished and they became responsible for their own profits and losses, and in 1994 when the State Council inaugurated foreign exchange and foreign trade system reforms, the centerpiece of which was the merger of exchange rates.

It must be said that after a series of reforms, MOFTEC directly subordinate enterprises showed greater vitality, and they have gradually developed and strengthened. Foreign trade transactions have risen steadily, and they still maintain a file leader, main force, and "national team" status on the country's foreign trade front.

Reform and opening to the outside world occasioned both development opportunities and grim challenges for directly subordinate enterprises. Intensification of reform, and widening of the opening to the outside world is the main trend in the country's economic development. Ultimately, we shall enter the World Trade Organization [WTO], and that time may not be far away. If we want other countries to open up to us, we must also open up to them. If we enter the WTO, we must permit foreign corporations to operate trading companies in China. Large trans-national corporations possessing great strength are surging into the country in a steady stream now. The great market that China holds very great attraction for them. This will present us with grim challenges. The Asia-Pacific Economic Cooperation [APEC] Organization Heads of State Conference, and Ministers' Conference held in Indonesia in 1994 set the trade and investment liberalization goals of all countries in the Asia-Pacific region, namely realization of trade and investment liberalization by 2010 for developed countries and by 2020 for developing countries. The APEC heads of state conference to be held in Osaka, Japan, in 1995 will discuss implications and steps toward implementation. The reason that some enterprises are doing fairly well in China today is that they depend to a certain extent on the monopoly foreign trade business that the state gives them. They receive special consideration or rely on long-standing business advantages.

On the other hand, across-the-board opening up of all categories of enterprises throughout the country to for-

eign operation is necessary, and must be done as soon as possible. As of the end of 1994, 8,342 foreign economic and trade enterprises of various kinds (including foreign trade companies, production enterprises, foreign economic enterprises, scientific research institutes, and commercial and materials enterprises) had been approved, in addition to which approximately 100,000 three kinds of partially or wholly foreign-owned enterprises were operating. Thus, nearly 110,000 enterprises have foreign management. The number of Chinese enterprises having foreign business management is becoming greater and greater. In particular, such industrial enterprises have strong production advantages, in addition to which their foreign trade authority makes them very strongly competitive.

Therefore, MOFTEC's directly subordinate enterprises are facing increasingly intense market competition and are being subjected to survival of the fittest. The law of survival of the fittest in a market economy is merciless. How can MOFTEC directly subordinate enterprises develop and grow strong amidst the intense competition of the domestic market in which strong contenders are as thick as flies. Despite the greater strength of these enterprises and the gradual increase in their competitiveness after 16 years of reform, we must realize clearly that MOFTEC enterprises are still not very strong and that they have very little money of their own. Their operating mechanisms are still not sufficiently flexible; they cannot keep up with the needs of changes in circumstances, and their adaptability is very poor. Very many weak links still exist in enterprise management; administration is not good, and returns are also less than ideal. If we continue to maintain a "good old days feeling," are content with yesterday's glories, cherish the outmoded and preserve the outworn, and are not eager to forge ahead, predictably, several years down the road, some companies will very likely collapse. Therefore, directly subordinate enterprises must have a strong sense of hardship; they must have a sense of urgency about intensifying reform. Only by intensifying reform, transforming mechanisms, improving management, and greatly increasing our own competitiveness can we steadily develop and grow stronger in the intense competition of a socialist market economy, and make a greater contribution to the people of the country.

"CPC Central Committee Decisions on Various Problems in Establishing a Socialist Market Economy System," passed by the Third Plenary Session of the Fourteenth Party Central Committee, established a basic framework for the socialist market economy system. "The Decisions" stated clearly that "establishment of a modern enterprise system in which public ownership is paramount, "is the foundation for the socialist market

economy system. It is necessary to the development of large scale socialized production and a market economy; it is the orientation of reform of China's state-owned enterprises." The goals of state-owned enterprise reform have been spelled out. We must diligently perform the 1995 reform tasks of MOFTEC directly subordinate enterprises according to CPC Central Committee and State Council plans.

## 2. Several Requirements of MOFTEC Directly Subordinate Enterprise Reform

*First is to do a solid job on several reform matters without controversy and according to the spirit of the Central Committee, adhering to the principle of providing tailored guidance, proceeding from realities, and courageously exploring.* In the course of reform and practice, we may sometimes encounter some reproach or differences of views. This often leads to some comrades growing fainthearted and drawing back. They do not dare go all out in reform. Comrade Deng Xiaoping had an important thought about differences in views about reform and opening to the outside world, namely no controversy. He said, "no controversy is one of our inventions. No controversy is in order to gain time to accomplish. Once controversy occurs, matters become complicated. Time is wasted and nothing can be accomplished. There should be no controversy, but boldly trying things and boldly forging ahead. This is true for rural reform, and it is also true for urban reform." We must also follow this spirit in intensifying reform of MOFTEC directly subordinate enterprises. We cannot use more energy on theoretical controversy, much less can we draw back daring to do nothing. "The Decisions" of the Third Plenary Session of the Fourteenth Party Central Committee state clearly that a modern enterprise system is characterized by clear equity rights, defined rights and responsibilities, separation of government administration and enterprise management, and scientific management. It also points out that modern enterprises may have various organizational forms depending on the composition of their property. Institution of the corporate system for state-owned enterprises is beneficial exploration of the founding of a modern enterprise system. The overall principle has been set. What we must do now is act in accordance with the Central Committee's plans and policies, and applicable national laws and regulations. MOFTEC'S leading party team believes on the basis of full study that given the present state of MOFTEC's directly subordinate enterprises, every enterprise must make several reforms such as reform of the labor, personnel, distribution, and social security systems. In addition, each enterprise must explore boldly as its actual circumstances warrant, and give tailored guidance to directly subordinate enterprises

in carrying out varying kinds of reform pilot projects. Every enterprise must proceed from realities , boldly explore, and actively conduct reform to build a modern enterprise system, and do a solid job to fulfill MOFTEC plans as each enterprise's own circumstances permit.

*Second is correct handling of the correlation between reform and the development of trade.* Reform is not a goal; it is a means. Our goal is to transform enterprises' operating mechanisms, increase enterprise vitality, and improve enterprise management through reform, the better to develop economic cooperation and trade. To depart from this goal and simply pursue a motley variety of methods, and indulge in mere form, thereby hurting the development of trade, is to go against the original intention of reform. Therefore, everyone must focus on all trade goals, the centerpiece of which is foreign trade exports, to do a solid job of enterprise reform.

Reform and the development of trade are mutually complementary. A good job of reform can spur the development of trade. The development of trade can create better conditions for reform; conversely, it can spur further intensification of reform. Invigoration and improvement of enterprises, founding of a modern enterprise system, and realizing sustained, rapid, and healthy development of foreign economic cooperation and trade are impossible without reform. However, reform must concentrate on the development of trade. If reform does not spur the development of trade, or harms its development, that is not reform; it is a mistake. Therefore, we must handle correctly the correlation between reform and development. Reform is the means; development is the goal. We must make reforms that develop trade.

*Second, the heads of enterprises must personally pay close attention to enterprise reform.* Enterprise reform is the heart of enterprise work. It is of major importance. Actually reform amounts to a readjustment of rights and interests. It has a direct bearing on the interests of enterprise cadres, staff, and workers. If not done well, not only will it play no positive role, it may have a negative effect that harms or even destroys enterprise development. Unless the first in command takes a hand, it is unlikely that others will do a good job.

Close attention of the person in charge to reform and all tasks requires leadership team work. Leadership teams must be united as one. Recently MOFTEC's party team made some changes in the leadership teams of quite a few units, meaning that they built leadership teams well. Leadership teams must do more in the way of building a democratic centralism system; decisions must be made democratically; no one person can have the final say. The teams must be both democratic and have demo-

cratically based centralism. Some enterprises have done a rather good job of leadership team building. China Export Commodity Base Construction Corporation is one that has. This conference's arrangements provide for a statement from this corporation. Everyone can exchange experiences. In some other enterprises, the person in charge always has the final say, nor are major matters discussed by the leadership team. The MOFTEC party team has emphasized time and again the need to do a good job of building leadership teams. Without a good team, how can there be leadership and how can a good job be done? In some teams, today, internal friction is a serious problem. There is no end of letters of complaint. Consequently, MOFTEC's leading party team demands that the person in charge of an enterprise must take the lead in straightening out matters, do a good job of achieving internal team unity, improve the democratic centralism system, and improve the building of leadership teams.

*Fourth is active exploration of means to make the most of the key political role of the leading party group in doing good ideological and political work during enterprise reform and development.* We must conduct reform hand in hand with both ideological and political work and the building of spiritual civilization, working on both with might and main. In the course of reform and opening to the outside world, the leading party team in each enterprise must use to the full ideology's role in providing support and advancing reform, focusing closely on major problems in transforming the enterprise mechanism and in intensifying reform. The leading party team must closely link the study and propagandizing of the theory of building a distinctively Chinese socialism with teaching staff and workers to emancipate thinking, update ideas, and unify perceptions to do a good job of ideological education so that party members, cadres, staff and workers will fully comprehend the party's plans and policies, will correctly deal with reform, and will actively and spiritedly devote themselves to reform. Leading party teams must take part in the study and formulation of major enterprise decisions, making full use of their political leadership role. In order to ensure party organization participation in major enterprise decisions, each enterprise may consider spelling out the scope, form and procedures for party organization participation in decisions, and institutionalize it. Once the fundamental policy has been set, enterprises' party organization must devote their main energies to surveying and coordinating how well they are applied, make sure to rationalize contradictions, smooth ruffled feelings, and arouse staff and worker enthusiasm for formation of a united force for moving ahead with reform. They must make the most of the role of supervision, supervising party member leading cadres in

doing a good job of opposing corruption and encouraging honesty. They must provide education in patriotism, education in professional ethics, and education in a spirit of dedication to the rank and file of staff and workers, and they must resolutely oppose the worship of money, hedonism, and extreme individualism, and ensure that reform follows a socialist orientation. They must maintain party leadership of trade unions and the Young Communist League, linking together fullest use of the party organizations' key political role with whole-hearted reliance on the working class. This will enable enterprises to follow a mass line, and to listen to the views of the masses on every reform measure that is inaugurated. Major reform policies must be discussed and passed by a staff member and worker congress. The role of these congresses must be used to the full in rousing the enthusiasm of staff members and workers. Some enterprises have not done sufficient work in this regard; however, some have done a rather good job, the China National Produce and Animal By-products Import and Export Corporation being one of them.

### 3. Improve Enterprise Management; Lower Administration Costs; and Further Increase Economic Returns

A glaring problem exists in quite a few enterprises today, namely rather high administration costs and fairly poor economic returns. One of the main reasons for this state of affairs is antiquated enterprise administration and inept management. Objective reasons such as problems created by the external environment, such as currency inflation, will not be discussed further here. Mostly I will talk subjectively and in terms of internal enterprise management.

Enterprise management is the foundation on which all enterprise work rests, and it is also an important part of reform. A formulation in "The Decisions" of the Third Plenary Session of the Fourteenth Party Central Committee contains four sentences one of which is about management science. Enterprise reform and enterprise management are complementary and interacting. They are inherently linked but separate. One cannot substitute for the other. Setting up and perfecting scientific management is the foundation for all enterprise work, and it is also an important part of enterprise reform. Results in reform depend on greater standardization and consolidation, and a sound management foundation is, in turn, essential to the intensification of enterprise reform. In short, intensification of enterprise reform, and founding a modern enterprise system requires use of a market mechanism to produce a rise in the level of enterprise administration and management, and improvement of economic returns. Reform provides a new component and poses new requirements in the improvement of management. Implementing the self-decision authority

provision of the State Council's "Mechanism Transformation Regulations" and founding a modern enterprise system requires reform, improvement, perfection, and upgrading of former management methods and systems as well as management methods and techniques to form a whole new management system to ensure that the new operating mechanism operates properly, and plays a full role.

CPC Central Committee and State Council leaders devote extremely close attention to the improvement of enterprise management. They emphasize the importance of improving enterprise management from the plane of carrying out the spirit of the Central Economic Work Conference, good operation of the entire state-owned economy, and breaking free from current large and medium size state-owned enterprise difficulties. During a December 1994 inspection tour of Tianjin, Secretary General Jiang Zemin "emphasized that scientific management is of fundamental importance as a mark of enterprise strength." He said, "no matter an enterprise's difficulties, it can tap very great potential by simply reforming management. It can look to management for returns." He also said straightforwardly that production management, business management, quality control [the same word is often used for both control and management in Chinese], cost control, technical equipment management, and work contingent management, etc. all require a constant striving for perfection, and scrupulous performance." Premier Li Peng also emphasized many times that in a good enterprise, scientific management is important. In short, we must link organically the intensification of enterprise reform and improvement of internal enterprise management and develop them in tandem, reform providing the motive force, and management providing returns. In 1994, State Council agencies concerned proposed the widespread launching in state-owned enterprises throughout the country of a campaign of "transform mechanisms, emphasize management, build internal strength, and increase returns." MOFTEC planned this campaign. This campaign played a positive role in stimulating our foreign trade enterprises to build internal strength, and improve their level of administration and management and economic returns. Substantial results were gained. MOFTEC has made more plans for the continuation of this campaign in 1995. In early February, it issued a notice calling on all to act in the spirit of the notice.

Emphasis on improving enterprise management in the economic cooperation and foreign trade field holds very important real significance today. A fairly large number of leading cadres overlook enterprise management when carrying out enterprise reform. A lopsided perception that must be corrected exists about enterprise manage-

ment. In the course of enterprise reform, some comrades concentrate too much attention on "equity rights, shares, turning state-owned enterprises into corporations, and such problems in the transformation of mechanisms to the neglect of enterprise internal management problems. The orientation and goal in intensifying enterprise reform is founding of a modern enterprise system. A modern enterprise system includes "clarification of equity rights, definition of rights and responsibilities, separation of government administration and enterprise management, and scientific management. The CPC Central Committee has repeatedly emphasized the need for full, complete, and accurate understanding in the founding of a modern enterprise system. There can be no regarding insignificant parts as the whole or looking at matters in isolation. Clarification of equity rights is a very important part of enterprise reform, but an enterprise cannot be improved simply through reliance on "clarification of equity rights" alone, nor can a modern enterprise system begin to be built on this basis. This is because clarification of equity rights does not mean that the improvement of management will naturally ensue. In a modern enterprise system, management is a basic and important feature that includes a complete, scientific management system. Without "management science," a modern enterprise system cannot truly begin to be built. In short, the four sentences about a modern enterprise system are an organic whole, no part of which is dispensable. They cannot be viewed in isolation. Still other comrades pay much attention to enterprises opening of external markets to the neglect of internal enterprise management. To use our expression, this is emphasizing business while slighting management. China's economy today is still in the process of transition from a planned economy to a market economy. Under the planned economy, enterprises were appendages of government. So long as enterprises organized operations on the basis of state command style plans, the state centrally planned the enterprise's production, supply, and marketing. In a socialist market economy, entrepreneurs go forth to open up markets. The organization of operations on the basis of market demand is entirely correct. MOFTEC's directly subordinate enterprises are also increasing in vitality through market competition. They are steadily growing and becoming strong. It must be said that inculcation of the market concept, orientation toward both domestic and foreign markets, and striving to open new markets in every country and territory remains a major problem that must be solved in our intensification of enterprise reform. It is also an important part of current development of foreign economic cooperation and trade. However, we must also realize that some enterprises indeed do ignore internal enterprise management, some of them substituting contracting for management.

Superficially, an enterprise may seem very prosperous, but its internal management is in a complete mess. Its trade business is not consistent, its financial system is not sound, its assets losses are serious, labor discipline is lax, and safety accidents occur frequently. These problems must be given close attention. MOFTEC's leading party team has studied and made comparisons from which it concludes that there are very great differences in the way foreign trade enterprises and industrial enterprises are managed. Our advocacy of looking to management for returns is pertinent. There is very great potential in foreign trade enterprises for lowering administrative costs and improving management. MOFTEC's party organization has announced the complete elimination of the contract management responsibility system, including of forms of individual contracting, and substitution of a management responsibility system and associated testing system. Enterprises must not only set up rules and regulations; they must also have supervision and limitation mechanisms. Otherwise, what use are rules and regulations alone that are set aside and not enforced? It is hoped that general managers will pay close attention to these tasks. Everyone must certainly realize that improving enterprises' internal management is an important task for putting enterprises in an unassailable position. They must put effort into internal strengthening, and they study and draw up rules and regulations, and ways and means of making internal enterprise management for scientific and stricter. It is particularly necessary to improve financial management and funds management, and to improve management of subordinate second and third class companies and overseas enterprises. Better management should be used to lower administration costs, increase economic returns, and increase enterprises' economic strength. In 1995, MOFTEC will have to rely on the tapping of internal potential to develop trade, increase export foreign exchange earnings, and increase returns.

**\*MOFTEC Minister on Trade, Gatt Talks**  
*95CE0552B Hong Kong CHING-CHI TAO-PAO [ECONOMIC REPORTER] in Chinese*  
*No 30, 31 July 95 pp 3-5*

[Article by Correspondents Ch'en K'e-k'un [7115 0668 3540], Chu Mao-chai [2612 3029 7872], and Hu Hsiao-yu [5170 2556 3768]; "Minister Wu Yi Talks About Foreign Trade Situation, GATT Restoration Talks, and Sino-American Trade"]

[FBIS Translated Text] On the morning of 14 July, Ministry of Foreign Trade and Economic Cooperation [MOFTEC] Minister Wu Yi was interviewed by correspondents from this and several other Hong Kong newspapers. Wu Yi told the correspondents that China's

import-export trade maintained sustained growth momentum during the first half of 1995; the actual amount of foreign capital used increased and quality also rose; foreign trade assistance methods were reformed; and reform of the foreign trade and economic cooperation system further intensified. Minister Wu Yi replied to the correspondents questions about China's entry into the World Trade Organization [WTO], Sino-American economic cooperation and foreign trade relations, and the effect on domestic export enterprises of readjustments to the export tax refund policy.

#### **Five Features of the Development of Foreign Trade During the First Half of 1995**

Minister Wu Yi said that during the first half of 1995, China's import-export trade maintained a fine momentum of sustained development. Foreign trade import-export trade volume for the period January through June totaled \$126.4 billion, up 29.6 percent from the same period in 1994. This included exports of \$69.79 billion, up 44.2 percent, and imports of \$56.61 billion, up 15.2 percent. Trade during the first half of 1994 was characterized as follows:

First was maintenance of sustained high-speed export growth, and acceleration of imports. The trade balance was fine.

Second, the composition of exports continued to improve, exports of industrial manufactures as a percentage of total exports rising to 84.8 percent from 83.1 percent during the same period in 1994.

Third, general trade exports increased fairly rapidly. General trade exports for the period January through June increased 44.9 percent over the same period in 1994. As of the end of June, China's spot exchange balance stood at \$62.6 billion, 80 percent of which came from general trade exports.

Fourth, imports and exports of foreign-owned firms continued to increased. Between January and June, imports and exports of firms in which foreign firms invested increased 29.4 percent over the same period in 1994 accounting for 36.7 percent of all the country's imports and exports.

Fifth, the import and export trade by country and territories developed smoothly and steadily. During the first half of 1995, China maintained and developed trade relations with 211 countries and territories of the world. Volume of trade with its main trading partners showed a trend toward increase.

### Unfavorable Factors During the Second Half of the Year Must Be Fully Assessed

Speaking about the trend of development of China's import-export trade during the second half of the year, Minister Wu Yi emphasized the favorable factors stemming from the international economic revival, and pointed out even more emphatically the need for a rather full appraisal of some unfavorable factors affecting imports and exports. These are: 1) continuation of the pressures that exporting enterprise face from rising export costs that stem from domestic inflation; 2) a fairly tumultuous export business order; 3) continued concentration of trade markets; 4) the limitations of China's export trade resulting from international trade protectionism; 5) a not fully formed export tax refund mechanism; and 6) a rise in loan interest rates that has increased exporting enterprises' cost of using funds.

In view of the above situations, Wu Yi wants foreign trade agencies to focus inward, tap potential, improve management, and improve work. Wu Yi believes that the \$240 billion import-export goal for 1995 can be attained.

### Emphasis on Improving Quality in Use of Foreign Capital

Minister Wu Yi said China's use of foreign capital also increased during the first half of the year, and that the quality of use of foreign capital had increased markedly, in particular. Between January and June, more than 15,000 foreign firm investment projects had been newly approved for an agreed investment of \$30.9 billion. Actual foreign investment totaled \$16.37 billion. As of the end of June, more than 237,000 foreign firm investment enterprises had been approved nationwide, more than 100,000 of which have gone into production. Foreign firm investment in 1995 has had the following three characteristics:

Rise in quality, and increase in actual amount of foreign capital used. Despite the decline in the number of foreign firm investment projects and the agreed amount of foreign capital, the actual amount of investment increased, rising 11.2 percent over the same period in 1994. The projects selected for foreign firm investment were of fairly high quality. Ordinary processing industry projects and projects that polluted the environment were excluded, technology-intensive and capital-intensive projects increasingly becoming the kinds of projects for which foreign capital was used.

Improvement in the make-up of foreign firm investment. With the recent state publication of "Interim Regulations For Guiding the Direction of Foreign Firm Investment," and "Directory of Foreign Firm Investment Industries,"

foreign firms became very interested in investing in infrastructure. Subways, light railways, ports, wharves, electric power, and telecommunications became hot spots for investment. Foreign firm investment in real estate is strictly controlled, however.

Scale of foreign firm investment projects is widening. More and more large transnational corporations are investing in China. The average amount of investment in foreign firm investment projects was \$1.71 million. During the first half of 1995, it reached \$1.9 million. The level of large corporation investment is higher.

Wu Yi said that in future, China will actively, rationally, and effectively use foreign capital according to the foreign firm investment industry directory. She especially emphasized that China's use of foreign capital must change toward an emphasis on improving quality.

When replying to a question about how to get foreign firms to invest in central and western China, Wu Yi said, applicable preferential policies are being studied, and this is also a subject being considered for the Ninth Five-year Plan. In order to attract foreign capital to central and western China, more must also be done to build the necessary facilities.

### Moving Ahead With Reform of Foreign Assistance Methods

Minister Wu Yi reported that foreign assistance work has been substantially reformed during the first half of the year. The former foreign assistance system provided grants, interest-free loans, and low interest loans. In 1995, the foreign assistance system was changed: the number of small grants was increased, but interest-free loans were discontinued, government discounted preferential loans substituted, i.e., the Chinese Import-Export Bank provides the loans, excess interests being made up out of foreign assistance funds. Mostly actions have been taken to spur Chinese enterprises to set up joint ventures with other parties to help the countries receiving assistance to develop industry and to develop their economy rather than operate memorial style projects.

Minister Wu Yi said that this reform was still not customary for some countries. She said that for countries having the capacity to repay, we insist on government discounted preferential loans. For truly poor countries, we have increased grant assistance. For us, this reform is a conceptual change; for third world countries receiving assistance, it is also an adjustment process. Wu Yi said that China currently has 2,600 foreign assistance personnel working hard in 64 countries to serve the local people.

### **Further Intensification of Foreign Trade System Reform**

Minister Wu Yi said that during 1995, reform of the foreign economic cooperation and trade system was intensified. While continuing to complete the trade system reforms inaugurated in 1994, the emphasis is mostly on speeding up the formulation of associated reforms. During 1995, we want to mostly transfer the operating mechanism of foreign trade enterprises, and improve enterprises' internal management, emphasizing reform of state-owned foreign trade enterprises. The State Council has already approved the China National Chemicals Import and Export Corporation as a pilot project for the country's first complete commercial firm. The state has approved the China National Chemicals Import and Export Corporation and the China National Metals and Minerals Import and Export Corporation as pilot projects for enterprise group work. The China National Cereals, Oils, and Foodstuffs Import and Export Corporation, the China National Machinery Import and Export Corporation, and the China Complete Plant Import Corporation have been selected as pilot projects for the establishment of a modern enterprise system throughout the country. In addition, we have inaugurated a number of reforms in other enterprises under MOFTEC jurisdiction, most of these reforms being in the personnel assignment system, financial system, and better enterprise management fields. We are providing tailored guidance and intensifying reform.

Minister Wu Yi also told the correspondents that China's imports and exports of technology have also increased very rapidly in 1995. More than 160 technologies were imported during the first half of the year at a contract cost of \$2.26 billion. They are to be used mostly in the energy, iron and steel, machinery, and chemical industries. Technology exports totaled 102, contracts totaling \$1.3 billion. During the first half of 1995, MOFTEC approved 97 enterprises outside China, investing \$88 million in them. Between January and May 1995, more than 8,200 foreign contract project and labor service contracts were signed totaling 3.7 billion yuan, a nearly 40 percent increase over the same period in 1994. Wu Yi also gave the correspondents a briefing on spurring a tremendous lowering of import-export enterprise costs, improving the system for paid tenders for export commodity quotas, and enhancing the role of chambers of commerce in promoting the import-export trade and bolstering anti-dumping rebuttals.

### **Problems Relating to Recovery of GATT Status and Entering the WTO**

Recently, China became an observer in the WTO, and China's admittance to WTO is still being negotiated.

This is a matter of considerable interest both in China and abroad. The correspondents quizzed Minister Wu Yi about this.

Minister Wu said that negotiations about China's recovery of its status as a GATT signatory nation have gone on for more than eight years. In 1994, China formally proposed a conclusion to the GATT re-entry talks before 31 December 1994. Why did it do this? It was because without a time limitation, the matter would drag on interminably, and the price would become higher and higher.

China's public statement in 1994 caused considerable shock throughout the world. It now appears that all parties are considering more soberly the issue of China's entry into WTO. Minister Wu Yi emphasized that China's nonparticipation in WTO and its disassociation from the new WTO was detrimental to the development of China's economy and detrimental to development of the world economy as well.

Minister Wu Yi mentioned, in particular, whether China genuinely wants to integrate with the international economy, and whether China will continue to pursue a policy of reform and opening to the outside world once it has regained its GATT status. Minister Wu had the following to say about these questions: Of course, China genuinely wants to integrate with the international economy. At the Asia-Pacific Economic Cooperation [APEC] Conference, China participated in the signing of a declaration, clearly stating it would liberalize trade by 2020. As for China's conduct of a policy of reform and opening to the outside world, this is a requirement for China's development. It is necessary to the founding of a socialist market economy system. No matter whether China joins the WTO, and no matter when it joins, China's policy of reform and opening to the outside world positively cannot change.

### **Progress in Sino-American Trade in the Midst of Frictions**

Mindful of the problems in Sino-American political relations, the correspondents asked Minister Wu Yi to assess future prospects for Sino-American trade and economic cooperation.

Minister Wu Yi said that she has always felt that trade between China and the United States would move ahead in the midst of frictions, and develop in the midst of struggles. The broad masses of American consumers are very interested in Chinese goods, and China's constantly developing tremendous market also holds very great attraction for American business. The economies of the two countries are strongly complementary; reciprocal benefit can be realized. Wu Yi said that the United States

went too far on Li Teng-hui's visit to the United States. We demand that the United States return to the correct path of the joint Sino-American joint communiques, eradicating the serious consequences created by Li Teng-hui's visit to the United States.

#### **Effect on Exports of Lowering of Export Tax Refund Rate Not Great**

One correspondent asked whether the average lowering of China's export refund tax rate from 17 to 14 percent, which became effective on 1 July 1995, would have a detrimental effect on China's foreign trade exports.

Minister Wu Yi said that the lowering of the export refund tax rate would have no great effect on foreign trade exports. The key issue now is making the tax refunds. If refunds are made on time and in full to exporting enterprises, they will not have much effect on exports. After analyzing the factors having an effect on foreign trade imports, Minister Wu said that exporting enterprises would have to address these factors by tapping internal potential, improving enterprise management, and improving economic returns.

#### **\*MOFTEC Officials Note Various Topics**

95CE0552A Hong Kong CHING-CHI TAO-PAO [ECONOMIC REPORTER] in Chinese  
No 30, 31 July 95 p 2]

[Article: "China Genuinely Wants to Integrate Into the International Economy"]

[FBIS Translated Text] This article presents another special Beijing interview that several Hong Kong newspapers conducted jointly. This time, we interviewed Wu Yi, Minister of Foreign Trade and Economic Cooperation [MOFTEC], and Zhou Daojiong [0719 6670 8741], chairman of the China National Securities Supervision and Management Committee. Wu Yi talked about China's economic and trade situation, and Zhou Daojiong talked about the development of China's security business. Both are hot topics of discussion abroad and in Hong Kong. The authoritative information the two provided naturally helps us understand China's current economic situation, and thus helps investors abroad and in Hong Kong make correct decisions.

Minister Wu Yi had just returned from a visit to three European countries with Chairman Jiang Zemin. Not yet recovered from the trip, she agreed to an interview by the Hong Kong publications during which she chatted about China's foreign economic and trade situation during the first half of the year and analyzed China's economic relationship with the world economy. In the course of the interview, she repeatedly revealed deep

concern for the development of Hong Kong and inland China economic relations.

Among the achievements in China's reform, opening to the outside world, and construction during the past 17 years, the tremendous change in foreign economic cooperation and trade is one of the most outstanding, and is obvious to the whole world. China's foreign trade increased from \$20.4 billion 17 years ago to \$236.7 billion in 1994 in a rise from thirty-second to eleventh place in the world. In a continuation of last year's rising trend, imports and exports for the first half of 1995 maintained a continued fine development momentum, imports and exports for the period January through June totaling \$126.4 billion, up 29.6 percent over the same period in 1994. This included exports totaling \$69.79 billion, up 44.2 percent, and imports of \$56.61 billion, up 15.2 percent. The balance of trade was good; optimization of the make-up of imports and exports continued; general trade exports spurred, and the volume of trade with main trading partners continued to expand. Despite the continuation of some unresolved difficulties and inconsistencies during the second half of the year, prospects are that, with hard work, foreign trade for the whole year will reach the previous set total of \$240 billion. The sustained and steady increase in foreign trade is the result of China's high speed economic development, widening of the opening to the outside world and intensification of reform, and increase in overall national strength. In addition, it has stimulated, in turn, further development of overall national strength, reform and opening to the outside world, and economic construction.

As the world's eleventh major trading entity whose annual import and export volume totals more than \$230 billion, China is naturally a major foreign trade power. Prospects are that by the end of the present century, China's foreign trade will total \$400 billion. China's foreign trade achievements, potential, and prospects are held in high esteem throughout the world. The development of China's foreign trade and development of the world economy are interrelated and mutually accelerating, and is also endorsed internationally. However, China remains a developing country nevertheless. Overall, it is still relatively poor and backward. China still has areas in which tens of million people need to escape from poverty. China still lacks large amounts of money for development, and China has a population of 1.2 billion. Although it practices a planned parenthood policy, the annual birth figure is still enormous. These circumstances make China realize clearly that: China must still work hard, maintain reform and opening to the outside world, speed up economic construction, and increase overall national strength if it is to be able to

produce greater development of every economic realm, including foreign economic cooperation and trade, and if it is to be able to play a greater role in the new international economic order, and make the contribution that China should make. In the course of this development, mutual assistance and mutual benefit between China's economy and the economies of every place in the world will require improvement of ties, and cementing of relationship for mutual benefit and mutual assistance and common development.

It is from this basic fact that today, and in the future as well, China wants to integrate China's economy with the international economy. At the Asia-Pacific Economic Cooperation [APEC] Conference, China promised to liberalize trade by 2020. She said, some people still raise doubts in connection with China's GATT re-entry about whether China will continue reform and opening to the outside world after restoration of its GATT status. In response, Minister Wu Yi said clearly that China's policy of reform and opening to the outside world is necessary for the development of China's economy, and necessary to China's building of a socialist market economy system. No matter whether China joins the World Trade Organization [WTO], and no matter when it joins, China's policy of reform and opening to the outside world positively will not change.

In fact, China's many years of tireless negotiations for GATT re-entry have stemmed from the needs of China's reform and opening to the outside world. This shows China's support for a world multilateral economic trade system, and its genuine determination to integrate into the international economy. Minister Wu Yi said that China's nonparticipation in WTO, and its disassociation from the WTO is detrimental to the development of China's economy, and detrimental to development of the world economy as well.

It should be pointed out that numerous informed and farsighted statesmen and entrepreneurs throughout the world have also repeatedly affirmed that China's economy is an important mainstay of the world economic order. They regard China's economic prospects favorably, and they emphasize that exclusion of such a rapidly rising major economic power from WTO means that the world multilateral economic system will be an extremely incomplete and splintered system. They all hope that China will become a member of WTO at an early date.

The world economy has always been a mutually linked, mutually restricting, and mutually advancing totality. China needs the world, and the world needs China. China's genuine integration into the international economy is needed for China's economic development, and

it is also needed for development of the world's economy.

#### \*Prospect of Sino-East Asia Trade Ties Viewed

*95CE0495A Beijing GUANLI SHIJIE /MANAGEMENT WORLD) in Chinese No. 3, 24 May 95 pp 81-89*

[Article by Zhang Xiaoji (1728 1420 3444), Lu Liashu (6424 2651 2579), and Cheng Xiaozhou (2052 1420 3166) of the State Council's Development Research Center: "Prospect of Development of China's Economic and Trade Relations With East Asia"]

#### [FBIS Translated Text] I. Prospect of Development of China's Trade Relations with East Asia A. A New Stage of Trade Development in East Asia

Through 15 years of fast economic growth, the economic capacity of East Asia now occupies a much more important position in global economic and trade development compared with the past. Statistics show that the trade volume of this area in 1993 hit \$1.85 trillion, making up 24.6 percent of the total trade in the world. With continuous changes in the international environment and the acceleration of East Asia's industrialization process, economic and trade development in this area is also undergoing a profound change.

1. With the change of the industrial development strategies of Japan and the "four little dragons" from being export-oriented to expanding domestic requirements, economic growth in East Asia will increasingly depend on internal markets. As a result, intra-area trade will develop at a faster rate than out-bound trade activities.
2. As East Asian countries are speeding up their pace in adjusting and upgrading their economic structure, a pattern of horizontal international division of labor is rapidly taking shape. Thanks to the effect of trade creation, further improvement is noted in the trade scale and structure among countries and regions in this area.
3. The acceleration of the regionalization and collectivization of the world economy and, in particular, the frequent appearance of trade protectionism of one kind or another have objectively forced East Asia to shift its trade emphasis from the traditional European and American markets to markets in Asia. As a result, intra-area trade has become more important, and countries concerned are paying more attention to developing economic and trade relations within the area. Since the 1980's, East Asia's economy and trade have grown much faster than the world's, making it an area with the fastest and most vigorous economic development on the globe. In the latter half of the 1990's and even in the first half of the next century, this trend will persist, and

East Asia will continue to lead the world in economic growth. Based on analyses prepared by the World Bank and other international organizations and taking into full consideration the various factors at present and in the future, we have made a fairly systematic analysis and forecast of economic growth in the world and in East Asia for the periods from 1993 to 2000 and from 2000 to 2020. Our conclusion: First, East Asia's economic growth rate will be 3 to 4.5 percentage points higher than the world's average by the year 2000. Second, the economy's reliance on trade in East Asia as a whole will soar from 36 percent in 1993 to 47.8 percent in 2000 and 61.8 percent in 2020. As can be seen, trade will play an increasingly important role in the East Asian economy. And under the impetus of the robust trade growth, East Asia will develop into a major component of the multipolar global economy.

#### B. An Analysis of the Prospect of China's Trade Relations With East Asia

China is the largest developing country in East Asia and in the world. Since it put into effect the policy of opening to the outside world, its trade with countries (regions) in the East Asia area has seen dramatic development. Since 1991, its trade volume with other East Asian countries (regions) has taken up 60 percent or more of its total foreign trade. In 1992, for example, its intra-area trade accounted for as high as 62.5 percent of the total foreign trade and reached \$103.517 billion, laying a sound foundation for conducting all-round trade cooperation within the area in the days to come.

1. China's rapidly developing economy and ever-growing market demands will contribute even more significantly to trade development within the East Asia area.

Since the beginning of the 1990's, East Asia has been an area in the world known for the fastest economic growth and the most vigorous economic development, and among the East Asian countries (regions), China has scored the highest rate of economic growth. The momentum of China's development in this respect is drawing increasing attention of countries around the world. The "New Asia Policy Plan" formulated by the German cabinet in October 1993 contained these words: "The world's new markets in the future will be located in East Asia, and China will be the most important market in that area." Based on the economic indicators for 1980-1993, the above plan gauged and analyzed the economic growth and the economic and trade scale of China, East Asia, and the world. According to the result of its analysis, even with a downward adjustment of its economic growth rate, China will still lead Asia in the economic scale. China's share in the total economic

scale of East Asia is expected to rise from 8.93 percent in 1993 to 24.15 percent in 2020. The latter percentage figure will be equivalent to 72.1 percent of the total economic scale of the "four little dragons" plus the ASEAN countries. By that time, China will become the largest importer in the area, a state of affair that will promote and propel economic and trade development in East Asia.

2. China will strive to develop and expand trade relations with other East Asian countries.

To earnestly quicken trade development with the rest of East Asia and the world, China is now reestablishing and readjusting its trade development strategy.

(1) The overall strategic principle for foreign trade and targets in the medium-range plan.

China has drawn up a new plan to cope with the changes in the world economy, restore its status as a founding member of the World Trade Organization, and speed up the development of its foreign trade. The principle for trade development is to maintain an appropriately high rate of total economic growth, accelerate the development of intensive-type foreign trade, rationalize the makeup of trade zones and the division of labor in the field of trade through market diversification, and put China's trade relations with East Asia and the world on the track of self-sustaining development. The medium-range target (up to the year 2010) for China's trade development is to continually maintain a trade growth rate that is 3 percentage points higher than the GNP growth rate. By the year 2000, the total trade volume should be brought up to \$400 billion so as to achieve the goal of doubling the amount in seven years. By 2010, the combined amount of imports and exports should reach \$800 billion, that is, doubling again the amount for the year 2000. This will need an average trade growth rate of 7.2 percent per year. However, we believe this target set by our government is relatively conservative. The actual trade development is very likely to surpass this target by a wide margin.

(2) China's principal measures and policies for developing world trade, especially trade with East Asia.

First, China's basic stand and medium-range plan for further opening its domestic market. Opening the market is a major aspect of China's open policy. With regard to multilateral trade, China's consistent stand is that it should enjoy due rights and interests and undertake due obligations. In the eight-year-long negotiations for its reentry into the GATT and in the Uruguay Round of GATT talks, the Chinese government has taken a pragmatic and responsible attitude and reached agreement with the parties concerned on opening the

Chinese market, market access, and other questions of principle. In accordance with the multilateral trade rules and regulations, China has promised to do the following: One, it agrees to adjust its general tariff to the due level for developing countries, accept the restriction regarding the tariff ceiling, and before the end of this century, keep the list of commodities not subject to this restriction within 10 percent of the total number of items in the tariff schedule. However, it also maintains that tariff concession should be based on China's national conditions and should not exceed the overall tolerance of a developing country. Also, opening to the world, including East Asian countries, should be reciprocal and mutually beneficial. China is resolutely opposed to opening its market unilaterally. Two, China will greatly reduce its non-tariff measures, keeping the commodities subject to non-tariff measures to a mere 3.6 percent of the total number of items in the tariff schedule. Three, China will open its service trade to the outside. Its government will strictly abide by the commitments it made in the Uruguay Round of GATT talks and open its service trade to the outside, including banking, legal, accounting, computer, and oil industry-related services. Just as the greatest beneficiary of China's open policy over the past 15 years was East Asia, so the greatest beneficiary of China's action to further open its markets, as predicted by various parties, will also be East Asia—Japan, Singapore, South Korea, and Taiwan in particular. China has always regarded East Asia as its most important trade partner. Through this medium-range plan to further open its markets, China hopes to receive reciprocal treatment from others in East Asia on an equal basis.

Second, expediting China's industrialization process through the development of foreign trade. For years, China has adopted the strategies of "import substitution" and "export orientation" to achieve industrialization. These strategies have given a certain impetus to China's economic development, but have not produced the expected results for the following main reasons: One, the measure taken in the past was a sort of highly protective "import substitution," which led various departments to acquire overlapping low-level technologies from abroad. Two, previously the purpose of exports was only to increase foreign exchange receipts rather than let the Chinese industries participate in international division of labor and international competition. To promote its industrialization, China will, from now on, get involved in international division of labor and international competition by expanding its openness and readjusting its industrial structure. This will create more trade opportunities between China and the rest of East Asia and propel the development of their bilateral economic cooperation.

Third, further implementing the strategy of exploring international markets in all areas through market diversification with emphasis on the Asia-Pacific region and its rim countries. Since 1991, China has achieved some results in implementing the market-diversification strategy. Yet the problem of over-concentration of export markets has not been radically corrected. For example, in 1993 its exports to developed countries still accounted for 60 percent of its total exports. To achieve the goal of market diversification, China plans to put greater emphasis on the Asia-Pacific region and its rim countries and steadily increase the trade share with them so that by the year 2000 there will be a breakthrough in its trade with developing countries, thereby reducing the heavy dependence on the European and American markets. Concrete measures for this purpose are: one, further developing economic and trade cooperation with Hong Kong, Macao, and Taiwan, adjusting related policies, and establishing coordination mechanisms for promoting economic cooperation with those regions; two, further developing cooperation with ASEAN members and peripheral countries in those trade fields where China and these countries can complement each other's resources to a great extent and giving scope to China's strong heavy industries in remedying the weakness of those that have only well-developed light industries; and three, further developing high tech-involved trade with Japan and South Korea and also taking advantage of their advancement in service trade to widen the scope of cooperation.

Fourth, making continued efforts to encourage and expand the export of labor-intensive products while striving to develop the export of capital- and technology-intensive products. In recent years, with the rapid rise in the price of labor, countries like Thailand and Malaysia have begun to appear less competitive in labor costs. China, on the other hand, still possesses a remarkable potential advantage in this respect. By fully utilizing this advantage, China will not only be able to solve its unemployment problem through trade development, but can also boost its economic strength through the export of labor-intensive products, making itself more capable of improving its trade pattern and developing the intensive type of trade. Policy-wise, China will make continued efforts to take over the share of overseas markets for labor-intensive products that Japan and the "four little dragons" no longer want to engross. Meanwhile, more emphasis will be placed on developing the export of capital- and technology-intensive products, especially the export of electronics and transportation equipment to markets in Japan, the "four little dragons," West Asia, and East Europe. C. Problems in Developing China's Economic and Trade Relations With East Asia

1. Trade barrier. With progress in the regionalization and collectivization of the world economy in recent years, economic zones of one kind or another have appeared in East Asia. While China has participated in various levels of regional economic cooperation in East Asia, there do exist some exclusive economic zones. The existence of these exclusive economic zones affects the further development of China's economic and trade relations with other East Asian countries (regions) and may even impede the economic growth and development of the entire East Asia area. From the viewpoint of East Asia's economic development as a whole, all kinds of economic zones should be widely open and non-exclusive in nature.

2. Trade imbalance. A review of the overall trade pattern between China and other Asian Pacific countries since the 1980's indicates that in most of these years China had a favorable trade balance with the United States but suffered a trade deficit with other East Asian countries (regions), especially Japan, Taiwan, and South Korea. This situation has become more evident since the beginning of the 1990's. Such a trade imbalance will impair the further development of economic cooperation between China and other East Asian countries (regions). There are two reasons for this trade imbalance: First, China still depends heavily on North America as its ultimate export markets, while its main markets for imports, especially items needed for various investment projects and intermediate products, are Japan, South Korea, Taiwan, Hong Kong, and other East Asian countries (regions). Second, in recent years, China has undertaken a large number of labor-intensive projects for East Asian countries (regions), such as investment projects involving assembling work using imported components and materials. In doing so, it has also taken over the export market in the United States established by these countries. This has, in effect, transferred to mainland China the large amount of trade surplus with the United States formerly enjoyed by these countries and regions. According to the U.S. statistics, mainland China's trade surplus with the United States was \$2.8 billion in 1987. Following that, the figure rose each year, and in 1993 it hit \$22.7 billion. Such a state of affairs has offset to a certain extent the trade surplus of other East Asian countries (regions), especially South Korea, Hong Kong, and Taiwan, with the United States. From the above, we can see that the U.S. restrictions imposed on imports from China in response to China's trade surplus with the United States not only has an adverse effect on China's exports, but also impairs East Asian countries' (regions') investment in and trade with China, hence the development of economic cooperative relations between China and the rest of East Asia. In addition, China's longtime trade deficit

with Japan, South Korea, and Taiwan will adversely affect its international payment, making it impossible to have a sound foundation for continued development of economic cooperation with other countries (regions) in East Asia. In view of this, China and other East Asian countries (regions) should try to change their current trade imbalance so as to help develop their relations of economic cooperation and bring about a quick growth of the area's economy.

3. Low-technological-level trade. Since the 1980's, China has imported many production technologies from other East Asian countries (regions). Although this has contributed to developing their relations of bilateral economic cooperation, most of the technologies involved are of the less sophisticated labor-intensive type. With the elevation of China's economic development and the furtherance of its economic cooperation with East Asia, this low-technological-level trade can no longer meet the requirements. Ostensibly, elevating the level of technology transfer will benefit China. In reality, since a high level of technology applied by China will help develop the economy, the ultimate beneficiary will be all of East Asia.

## II. Capital Flow in East Asia and Prospect of China's Assimilation of Direct International Investment

The 1990's have witnessed a vigorous transnational flow of capital. As of the end of 1993, direct international investment in the world had reached a cumulative total \$2.19 trillion. What is even more noticeable is China's exceptional achievements in assimilating foreign investment. Now, China is the second biggest host country in the world for foreign investment, next only to the United States. The 1993 record showed that direct foreign investment in China accounted for 13 percent of the country's total fixed-asset investment. In fact, the development of foreign-funded enterprises has become a major motive force propelling China's economic growth. **A. Trend of Changes in Capital Flow in East Asia and Its Effect on China's Assimilation of Direct International Investment**

1. Trend of changes in direct international investment in East Asia.

(1) A hot spot for international investment, East Asia will remain an area in the world with a net inflow of capital. Since 1988 up to present, East Asia has been an area in the world marked by the fastest growth in the inflow of capital. Statistics of international payment show that total international investment in East Asia reached \$28 billion in 1992. In 1993 the figure rose to \$53.2 billion, or 28 percent of the world's total.

According to the World Bank's latest forecast, the average economic growth rate worldwide is likely to remain at 3.2 percent for the period 1994-2005, that is, at the same level as in the 1980's. For East Asia, however, the economic growth rate may be twice as much as this, reaching roughly 7-8 percent. Fast economic growth is certain to cause a fast expansion of the scale of the economy and market in this area, making it continue to be a theater of the sharpest investment competition on the globe. Calculated on the basis of the average foreign investment growth in East Asia for 1988-93, the amount of foreign investment in this area will account for 38 percent of the world's total in 2020. As most countries in East Asia are still in the stage of industrialization, the outflow of capital from this area will not exceed the inflow even with an increase in its out-bound investment. A net inflow of capital will be the most striking feature of capital flow in East Asia.

(2) With the increasing activities of industrial relocation and especially the development of horizontal division of labor in East Asia, investment in each other's country (region) will continue to grow, and the level of investment will rise. Two-way investment will speed up industrial relocation as well as the flow of economic resources and productive elements within the area. Investment growth will also result in faster development of intra-area trade. According to statistics contained in an Asian Development Bank investigative report, 75 percent of the present world trade is directly related to direct investment. In East Asia, though at present only 42 percent of the total trade is linked directly with such investment, the percentage is expected to climb to 70-75 percent in 2020.

(3) There will be more investment opportunities in East Asia for high-tech and integrated projects. Through some two decades of development, East Asia's economic strength, quality of professionals, and level of scientific research have all risen remarkably. The continuous rise in the level of industrialization has objectively brought about a more urgent need for investment projects of a higher technological level, especially those involving high technologies. With the exception of Japan, countries (regions) in East Asia still have an advantage over Europe and the United States in terms of the overall price level. To meet the need of competition in prices, many transnational companies, especially those based in Japan and the United States, have begun moving their supplementary and non-direct-production investment projects, including those for products research and development, to ASEAN countries. East Asia is no longer a pure processing industry base. It has begun advancing in the tripartite direction of high-tech

and comprehensive development, production, and marketing.

2. China will benefit from East Asia's economic development and growth. (1) Of the total foreign capital flowing into China during 1980-1993, 85 percent came from East Asia, particularly from Japan and the "four little dragons." As of the end of 1993, among the top 10 countries (regions) with the largest number of enterprises investing in China, eight were countries (regions) in East Asia. China's fast economic growth has a positive link with the surge of incoming foreign capital, and each foreign-investment high tide is clearly related to drastic changes in foreign exchange rates and industrial restructuring within East Asia. According to most forecasters, since East Asia's industrial and economic structures are still undergoing adjustment, China can naturally obtain more capital from Japan and the "four little dragons" and get more development opportunities by involving itself more extensively and directly in the division of labor in the area's industrial development.

(2) East Asia's fast economic growth will attract more transnational companies to come for investment. China will benefit from such increased investment. According to statistics, 85-90 percent of the direct investments on the globe and their accompanying transfers of capital are accomplished by transnational companies. As of the end of 1994, however, only 58 and 65 percent, respectively, of the European and U.S. transnational companies had engaged in direct productive activities in East Asia. Basically, investments by purchase and acquisition of enterprises—the most frequently used investment methods by transnational companies—are still in the burgeoning stage in Asia. Nonetheless, with the improvement of the investment environment in East Asia, we are sure that transnational companies will make more aggressive business ventures in this area in addition to the continued increase in small and medium investment projects launched by developed countries. As transnational companies usually adopt an investment strategy of evenly scattering their projects over an area, their increased presence in Asia will have a positive effect on China's program of soliciting foreign investment, especially when China has opened more fields to foreign investment and diversified its methods for assimilating foreign capital. According to a February 1994 survey of 1,000 big U.S. companies conducted by the Hong Kong authorities, 98 percent of them foresaw East Asia's bright prospect of economic growth and favorable climate for investment and expressed willingness to expand their investment in this area • within 3-10 years. Among these companies, 88 percent hoped to locate their investment projects in both the ASEAN countries and China to carry out production

**A. China's Overall Strategy for Assimilating Direct International Investment and Its Future Prospects**

1. China's overall strategy for assimilating direct international investment.

(1) Foreign investment in China has entered a ripening and development stage.

In the 1980's, foreign businesses' investments in China were apparently of a trial nature. They were of small scale, obviously aimed at short-term interests, and contained a fairly large percentage of labor-intensive projects. In the 1990's, especially since 1993 with the quick growth of such investment and the accumulation of experience in investing in China, the scale of foreign investment in this country has expanded considerably. (In 1991 the negotiated amount of a foreign investment project averaged \$900,000. The figure rose to \$1.19 million in 1992 and \$1.33 million in 1993. In the first half of 1994, it hit \$1.73 million, up 29 percent compared with the preceding year's corresponding period.) At the same time, the geographical scope of investment has enlarged with more projects located in the hinterland. There have been more investment projects launched by transnational companies. And the methods of investment have become more and more varied. As of the end of 1993, the employees of foreign-funded enterprises in China had exceeded 15 million, while the total output value of these enterprises accounted for about 11 percent of China's GNP.

(2) Overall strategy for soliciting foreign investment.

Following the above-mentioned development, China has begun changing its emphasis and direction in utilizing foreign capital. To meet the objective needs of new economic environments at home and abroad, the new strategy is centered on optimizing the economic structure and raising the overall economic efficiency. It is aimed at maintaining a speed in utilizing foreign capital commensurate with the development of the national economy and the nation's ability to actually absorb and assimilate foreign capital. Emphasis is placed on gaining greater benefits from direct foreign investment in developing China's economy through the solution of capital shortage, the introduction of advanced technology into the country, and the boosting of exports. Specifically, the strategy has three parts: One, actively lead and encourage foreign businesses to invest in infrastructure and capital-intensive projects. Two, introduce into the country advanced technologies and equipment, including practical intermediate technologies, and transform traditional techniques and industries, especially processing industries, to expedite the upgrading of our products, boost their competitiveness, and narrow the gap

between our industries and the advanced international level. Three, open more export channels and increase the export volume to earn more foreign exchange and see to it that as far as foreign-currency receipts and expenditures are concerned, foreign-funded enterprises in our country will have an overall trade surplus instead of a deficit.

2. Prospects of introducing foreign capital into China.

As far as China's overall economic development is concerned, maintaining a net inflow of capital is still a significant way to balance its international payment as well as an objective requirement. In 1993, direct foreign investment began to account for about one half of the foreign capital introduced into China and became one of the major sources of funds for China to maintain a surplus in capital. Its importance is therefore self-evident. It is necessary to maintain the growth in such investment at a level not lower than the average rate of increase in the 1980's. In view of this, the Chinese government, for the purpose of national economic development, has set the target of the annual amount of direct investment introduced from abroad at \$20 billion for the year 2005. Meanwhile, based on various current and future factors, we have made medium- and long-range forecasts of China's utilization of foreign capital, in particular foreign capital through direct investment from within East Asia. Compared with our forecasts, the above target set by the government seems to be somewhat conservative. Even based on the rather low average growth rate registered for the eight years from 1985 to 1993, the amount of investment in China from Japan, the "four little dragons," and the ASEAN countries would reach \$41.552 billion by the year 2000. If we base our forecasts on the records of other foreign-investment host countries in the world, by the time around the year 2010, foreign capital flowing into China would be even much greater, and China would continue to rank first among developing countries in assimilating direct foreign investment.

**C. Some Questions Concerning the Direction of China's Policy on Foreign Investment and Promotion of Financial Cooperation With Others in East Asia**

1. Open to foreign investment as aggressively as we opened our market to the outside to greet a new high tide of international investment in China.

In opening its investment market to the rest of East Asia and to the world, China adheres to three principles, namely, conforming with the current economic level, meeting the prerequisite of preserving social stability, and maintaining the balance of international payment. Specifically speaking, it will form a more favorable investment environment, improve its measures governing

foreign investment, expand the scale and broaden the scope of foreign capital utilization, and create conditions for equal treatment of foreign-funded and domestically financed enterprises.

Through 15 years of exploration and development, investments in the Chinese mainland made by foreign businesses, particularly those from Hong Kong, Japan, and South Korea, have entered the harvesting period, producing the fruitful result of big profits. Of the top 10 successful joint ventures in China cited in 1994, six had investment from East Asia. All these six joint ventures scored a profit rate of more than 70 percent, the highest rate being 220 percent. This would be unimaginable in the domestic investment markets of Japan and the "four little dragons." As far as investment from countries (regions) in East Asia is concerned, more and more business people in Japan, South Korea, Taiwan, Singapore, as well as Thailand and Indonesia among the ASEAN members now want to invest in the Chinese mainland. After conducting an investigation in China, an authoritative Japanese has said that Japan's investment in China does not require a long time to get returns; it can give quick results and has a very high rate of success. In 1993 Japan's investment in China reached \$1.324 billion, accounting for 4.6 percent of its total investment overseas. It is expected that the percentage will soar to more or less than 8.2 percent by the year 2000. Investment in China made by countries like South Korea, Taiwan, and Thailand is not only growing fast, but shows a remarkable tendency to expand in scale. Particularly worthy of mentioning is that with China's efforts to improve its investment conditions and methods and to open more areas to foreign investment, transnational companies in East Asia, Europe and America have begun keeping a close watch on China's market, waiting for a favorable opportunity to invest directly or in the form of bonds and stocks. With regard to investment in China, the general understanding is that in the last three years China has ushered in a new high tide of investment from abroad, with projects characterized by their large scale and good quality. At the same time, China's policy on foreign investment has shifted its emphasis from giving investors preferential treatment to according them with fair treatment. Efforts have been made to create a climate for Chinese and foreign-funded enterprises to engage in fair competition in terms of location, taxation, and environment for enterprise operations. China wants to see that all foreign-funded enterprises will gradually receive the same treatment as Chinese enterprises, and that more foreign businesses investing in China will have an open, fair, and non-discriminating market to conduct competition and will be assured of the safety of their investment.

## 2. Carry out the strategy of using the country's industrial policy to guide foreign investment toward basic industries, infrastructure, and new and high technology.

All along, China has tried to use specific measures in leading foreign businesses to invest in those sectors and industries that are urgently in need of development, but the results are not appreciable. With the development of the economy and the fast growth and increased role of foreign investment, it is quite necessary to exercise macro management over the use of foreign capital. If foreign investment projects are too much divorced from our country's industrial policy and goal, they may cause our macroeconomy to be out of control and impair our efforts to optimize and adjust the economic structure. In view of this, China's policy on foreign investment should conform with its newly promulgated industrial policy. It should be able to guide foreign businesses to invest in the weak links in China's economy and in areas urgently in need of development.

Since the 1980's, manufacturing projects have accounted for only a small part of Japan's investment in China. The proportions of investments in basic industries and infrastructure have been even less. The most striking fact is that even though Japan is the most developed heavy industry country in East Asia, its investment in China contains a lower percentage of infrastructure projects than that of South Korea. In developing economic cooperative relations with China in the future, economically robust Japan should increase its investment in high-tech industries and infrastructure in China and use such investment to propel the economic development of the entire East Asia area.

## 3. Expand inland China's cooperation with the rest of East Asia and the world by giving full play to its strong points.

In China, a country with a vast territory, there are relatively big gaps between different regions in terms of resources and the level of technological and economic development. Nonetheless, each region has its own strong points. Compared with coastal areas, inland China not only has the advantage of cheaper commodity prices but is also more abundant in natural resources. Some inland cities, including Wuhan, Lanzhou, and Chongqing, have a sound foundation of industrial technology and a wealth of modern management personnel and experience. Because of this, foreign investment in China's inland has kept increasing in recent years. In 1992, only 8 percent of foreign investment received by China was in the inland. It jumped to 20 percent in 1993. The trend is upward.

China attaches great importance to the even distribution of productive forces among its regions. It hopes that for-

eign businesses will make aggressive investments in its inland. For this reason, it gives preferential treatment to foreign investment projects in the inland with respect to market shares, resource supply, and taxation. Geographically, however, most investment projects in China so far made by other East Asian countries (regions) are located in coastal areas, and only a very small number are in the inland. As a matter of fact, competition is becoming increasingly keen and prices of productive elements are going up in coastal areas. In view of this, it is a good strategy to locate some investment projects in the inland. For example, while Shanghai, Dalian, and southern China are appropriate for building technology-intensive industrial bases, inland areas may be chosen as places for investment in resource-exploitation and labor-intensive industries. "Like the coastal areas, China's inland has inexhaustible attraction, and it has evolved from a potential market to one of the largest realistic, exploitable inland markets in the world," says an American entrepreneur who has invested in a coal-mining project in Shaanxi.

4. Carry out the development strategy of cooperation between large enterprises or enterprise groups and transnational companies.

The goal of this strategy: First, it is to transform and graft big and medium state-owned enterprises [grafting means formation of joint ventures by Chinese enterprises with foreign companies]. Second, through co-operation with transnational companies, it is hoped to link big and medium enterprise groups' product development, production, and sales or their services directly to the international market. Third, through investment by transnational companies, inflow of products will be replaced by inflow of elements of production. Fourth, China has always hoped to offer its market in exchange for technology, but the result of its efforts in this respect has not been very successful. On the contrary, a large number of small and medium foreign-funded enterprises have appeared in China, and in one way or another, these enterprises have taken up a sizeable share of the market. In view of this, China hopes to cooperate with high-tech transnational companies as a way to fulfill its desire of acquiring technology directly from abroad. Despite the limited numbers of transnational companies so far making investments in China, projects launched and put into operation by them have all yielded mutually beneficial results. Now, most transnational companies in Japan and the "four little dragons," including Matsushita, Mitsubishi, and Gold Star, have begun investing in China. More companies are, in varying degrees, entering or planning to enter the investment market on the Chinese mainland. From the objective analysis of the current situation in China, we should say that coop-

eration between its big and medium state-owned enterprises and transnational companies is a very bright road of development.

5. Underdeveloped infrastructure and insufficient construction funds have long been a bottleneck in China's economic development.

With the acceleration of its pace of industrialization, China hopes that more foreign businesses will come to invest in infrastructure projects, such as roads and harbors, so as to solve this bottleneck problem in its development. In dealing with investment in these areas, the Chinese side will give full consideration to the investors' overall interests and provide them with subsidies or preferential treatment as the policy permits. For example, Thailand's Zhengda [2973 1129] Group has a plan to invest \$200 million in a road construction project in Shijiazhuang. After consulting with the departments concerned, the government has given this foreign investor approval—as a favorable treatment—to do business in the city's most flourishing commercial area. It is China's established policy to allow foreign investors in joint ventures in the infrastructure field to engage in multipurpose operations as a way of ensuring their returns on investment. In addition, the investors are allowed to collect fees from the users of the infrastructure at a rate somewhat favorable to the investors as the case warrants. Use of foreign investment in building BOT projects is now in the exploratory stage. From the perspective of developing foreign capital utilization, there is certainly a bright future in promoting this kind of investment. This is especially the case in attracting investment from financially robust Singapore, Taiwan, South Korea, and Japan. It is reported that several Japanese investment companies related to the Ministry of Construction are preparing to invest in BOT projects in China, while some big European and U.S. companies are also formulating similar investment plans. This indicates that China has a potential market for BOT-type investments. However, competition in this respect is expected to be keen.

**III. Prospects of China's Economic Cooperation With East Asia A. Economic cooperation will expand in East Asia**

1. Developed countries in Europe and America are adjusting their external economic policies, shifting emphasis to East Asia.

Since the beginning of the 1990's, while actively developing the North American Free Trade Zone, the United States has begun shifting the focus of its external economic strategy from West Europe to East Asia. Such a change in strategy has produced initial results. Now,

East Asia has become the most important trade and economic cooperation partner of the United States. In 1992 the U.S. trade with East Asia amounted to \$336.6 billion, or 33.6 percent of the country's total foreign trade. This percentage surpassed the U.S. trade with West Europe and with other countries in the North American Free Trade Zone. Meanwhile, the United States is bent on fulfilling its development plan of "returning to Asia" through the Asia-Pacific Economic Cooperation (APEC) organization, an international body that covers East Asia. Germany, like the United States, has begun to adjust its Asian policy. In early 1993, German Chancellor Helmut Kohl visited Singapore, Indonesia, Japan, and South Korea in East Asia and formulated an integrated "new Asian policy" centering on exploring markets and participating in economic cooperation in this area. In April 1994 the European Community took the initiative to sign the "Bangkok Agreement" with the ASEAN, aimed at promoting bilateral economic cooperation and, for this purpose, established economic offices in Bangkok and Hanoi. In addition, Australia is also shifting the focus of its economic strategy more and more to Asia.

By strengthening economic cooperation with East Asia, developed countries in Europe and America have not only imported labor-intensive products from East Asia, but poured more capital and technology into this area. Objectively, this has aggravated investment competition in East Asia. On the other hand, it has enabled East Asia to raise its level of production technology and promote the development of "horizontal division of labor." As a result, industry development in this area has evolved quickly from the pattern of resources—labor—capital-intensive industry to that of capital—technology—intellectual-intensive industry.

## 2. East Asian countries (regions) have begun shifting the focus of economic cooperation to developing internal markets and opening themselves wider.

An economic power in the world, Japan in the past consistently pursued an external economic policy laying emphasis on Western markets. Since the 1980's, with the fast economic growth in East Asia and under the pressure from Europe and the United States, Japan's development strategy has begun shifting its emphasis to satisfying internal needs. At the same time, it has replaced the external economic policy of centering on Europe and America with a policy of paying attention to Asia as well as Europe and America. In other words, it has begun stressing the importance of East Asian markets. During the period 1990-1992, while Japan's overseas investment kept declining, its investment in East Asia was picking up quickly. In 1993, its investment in East Asia multiplied compared with the preceding year,

and its trade with other East Asian countries (regions) surpass for the first time its trade with North America. The "four little dragons" and ASEAN countries, which have grown up by relying on their export-oriented strategy, hope as earnestly as Japan that an open-type economic order will be established in East Asia. "East Asia's seclusion is equal to suicide," says Lee Kuan Yew, Singapore's senior minister. "Only when we are open to each other can we coexist." The ASEAN has decided to build a highly open ASEAN free trade zone in 10 years. In the meantime, arrangements for regional economic cooperation at various levels are taking shape and will develop step by step. Examples are the Northeast Asian Economic Sphere, the South China Economic Sphere, and the "Growing Triangle" formed by Singapore, Indonesia, and Malaysia. These economic cooperation zones already have some foundation and are expected to develop quickly during the remaining years of this century and the first decade of the 2000's. Indeed, with its fast economic growth and accelerated market-opening process, East Asia will be more cohesive in itself and more attractive to outsiders.

## 3. East Asia's industrial structure will continue to be adjusted, and countries (regions) will be more dependent on each other.

Economic conflicts between Japan and the "four little dragons" on the one hand and Europe and the United States on the other are a problem of structure, which is difficult to resolve within a short time. Because of this, the radical factors leading to the rising exchange rates for Japanese yen and Korean won will continue to exist. Judging from the trend of development, the exchange-rate pressure will bring about a change in the industry within East Asia. While a sizable part of the division of labor will still be vertical, the horizontal division of labor will see further development. And with the upgrading of the area's industry as a whole, countries will be more dependent on each other. **B. China will continue its efforts to promote economic cooperation in East Asia**

1. China's fast economic growth will propel the development of its economic cooperation with other countries (regions) in East Asia. Now, these countries (regions) are China's most important cooperative partners in trade and investment, providing a sound material foundation for the continued development of their cooperative relations in the future. China will make every effort to contribute, through its own economic growth, to the development of the East Asian economy. It is estimated that China's economic growth rate will remain at 7 percent by the end of this century and even during the first decade of the 2000's. This will serve as a motive force

for China to develop economic cooperation with others in East Asia.

2. China's reform and open policy will continue to promote its economic cooperation with others in East Asia.

(1) China has begun implementing a policy of fully opening its border cities and the capital cities of its inland provinces, thus providing more opportunities for other East Asian countries (regions) to cooperate with it economically. Elements of production available in inland China have now been included in the resources for promoting economic cooperation with others in East Asia. This will bring China's economic cooperation with other East Asian countries (regions) to a new level.

(2) In 1994 China reformed its financial, taxation, and other economic systems in accordance with the principle of the market economy. Based on the standard rule for multilateral trade, it also revamped its trade system and put into effect a managed, floating single exchange-rate system. Moreover, it has made commitments in the negotiations for its "return to the GATT" and in the Uruguay Round of GATT talks and, based on these commitment, will continue to reform its foreign trade system. All these will further China's liberalization of trade and investment and promote its economic cooperation with others in East Asia. C. **Several issues deserve attention concerning successful development of economic cooperation between China and others in East Asia.** China's economic cooperation with others in East Asia has made fairly good progress, and many favorable factors exist for continued development of such cooperation. However, there are several issues not to be overlooked:

1. Turning East Asia into an open economic cooperation zone.

Economic cooperation in East Asia has taken shape spontaneously on the basis of the area's unique economic structure. It has achieved pretty sound development since the 1980's. In the world economy, however, both the United European Market and the North American Free Trade Zone have institutionalized their management—a fact which will adversely affect East Asia's position in the world economy if it does not catch up. In the interest of East Asia, countries (regions) in this area, while speeding up the progress of their economic cooperation, should institutionalize their cooperative relations. Moreover, with the formation of the World Trade Organization (WTO), diversified and multilateral economic cooperation will become more prosperous. To promote such economic cooperation in East Asia, it is necessary, first of all, to act discriminately—that is, developed countries in the area should be more

open to developing countries. Secondly, economic cooperation in East Asia should demonstrate a high degree of openness in line with the development of world trade toward liberalization.

2. Developing multilayered sub-regional economic cooperation by taking advantage of the diversified economic structures in East Asia.

East Asia has seen the development of a number of economic sub-zones and "economic growth points." In continuing their economic cooperation, countries (regions) in East Asia should develop various kinds of sub-regional economic cooperation based on their diversified economic structures. In the Bo Hai Rim Economic Zone, for instance, economic cooperation may be carried out to develop heavy industries by exploiting the favorable conditions in this respect in Northeast China and South Korea. In Southeast Asia, efforts may be made to use the existing labor-intensive economic cooperation as a foundation to develop cooperation of a higher technological level. In areas on the rim of Dong Hai [East China Sea], economic cooperation should be aimed at developing electronics and telecommunications industries with Shanghai as the center. Only thus can economic cooperation in East Asia exhibit vitality.

3. Promoting East Asia's development of peace through economic cooperation.

Since the 1980's, China has not only developed economic cooperation with others in East Asia, but also promoted the development of peace in the area. China's reform and open policy has enhanced economic cooperation among the Chinese mainland, Hong Kong, Macao, and Taiwan and laid a sound foundation for the peaceful reunification of this country. Since the late 1980's, China has reinforced its relations of economic cooperation with Southeast Asian countries and South Korea. This has not only promoted peace in Southeast Asia, but also helped preserve the peace of the Korean Peninsula. From this perspective, it is imperative for East Asian countries (regions) to discard all kinds of doubts and misgivings and march ahead to develop economic cooperation in the area.

**\*Zhujiang Delta Changes Investment Strategy**  
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[Article by Yu Meizhen [0151 2734 3791]: "Zhujiang Delta Changes Its Foreign Investment Utilization Strategy." The author is affiliated with South China Normal University's Economics Department.]

[FBIS Translated Text] Amid the spring tide of reform and opening up, the Zhujiang Delta has become one of

the most economically vigorous regions in the nation and even in the whole Asia-Pacific region. Taking advantage of the worldwide readjustment of the industrial structure and actively utilizing foreign investments in large scale no doubt were important factors in the region's accelerated economic growth. The influx of foreign capital has speeded up the region's industrialization process on the one hand, but on the other hand, the direction of foreign investments has created an unbalanced industrial structure, exacerbating the conflicts in the region's industrial structure. This article starts out with the relationship between the Zhujiang Delta's industrial setup and its foreign investment utilization and goes on to discuss the significance of the change in the foreign investment utilization strategy to the upgrading of its industrial structure.

#### **Relationship Between the Industrial Mix of Foreign Investments and the Zhujiang Delta's Industrial Setup**

Since reform and opening up, large amounts of foreign investments have poured into the Zhujiang Delta, enabling it to achieve an astonishing rate of economic growth that was nothing short of miraculous. Between 1980 and 1992, the region's GDP grew at an average rate of 16.5 percent a year; its foreign export grew 27.8 percent a year. An important characteristic in the region's foreign investment utilization was its emphasis on foreign businesses' direct investments. This approach increased the impact of the influx of foreign capital on the change in local industrial structure. This relationship had positive and negative manifestations:

1. Foreign investments brought rapid industrial growth. In the 15 years since reform and opening up, the Zhujiang Delta has escaped from the backward production pattern that emphasized agriculture and the handicraft industry. Industry spurred the development of other trades and played a lead role. Data gathered in eight Zhujiang Delta cities between 1980 and 1991 showed the following industrial growth rates: Guangzhou, 13.6 percent; Shenzhen, 60.2 percent; Zhuhai, 39.56 percent; Foshan, 22.6 percent; Zhongshan, 23.26 percent; Jiangmen, 22 percent; Dongwan, 22.48 percent; Huizhou, 30.1 percent. Clearly, they have been growing by leaps and bounds. Their development showed the industrial mix of the eight Zhujiang Delta cities' GDP—the secondary industry accounted for the bulk of the GDP in each and every city.

If we look at the proportion of foreign investments in the three industrial tiers during 1985-1992 period, more than 70 percent of the investments were in the secondary industry. Because most of Guangdong Province's foreign investments were concentrated in the

Zhujiang Delta region, the industrial mix of its foreign investments shared the same characteristics as that of the entire province.

2. Within the industrial sector, there is a group of light industry-dominated mainstay industries, and there are some burgeoning industries that are nationally significant and have leadership status. The eight cities have created 11 mainstay industries: Electronics, electrical machinery, textile, machinery, foodstuff, chemical, sewing, plastic materials, metallic manufactured goods, building materials, and pharmaceutical products. In 1991, their total output value was 106.194 billion yuan, accounting for 69.10 percent of the 8 cities' and 43.3 percent of the province's GVIO.

The Zhujiang Delta's light-industry-biased industrial-mix is due primarily to foreign businesses' heavy investments in industries that are labor-intensive, require small investments, and produce quick results, as they seldom invest in raw materials and heavy chemical industries.

3. It has promoted the readjustment of the industrial structure, making it more external-oriented and helping to develop foreign trade, and it has increased foreign exports that earned foreign exchange. The majority of the Zhujiang Delta's "three kinds of wholly and partially foreign-owned enterprises" and "three forms of import processing and compensatory trade" are export processing industries, which greatly facilitate the external-oriented development of industries, increase the export competitiveness of the area's industrial goods, and promote the substantial increase in export trade. In 1993, the Zhujiang Delta region exported \$17.4 billion's worth of goods, accounting for 65 percent of the province's and 18.95 percent of the nation's total export trade volume.

4. It has promoted the fairly rapid development of the tertiary industry. The industry mix of foreign investments show that foreign businesses were less in the tertiary industry than in the secondary industry, but the former still accounts for 20-30 percent. In the early stage, foreign investors were mainly investing in guesthouses and hotels, but in recent years, investments in real estate have soared, spurring the development of the tertiary industry. Take Guangzhou and Dongwan for instance. In 1980, the tertiary industry share of the GNP was 34.6 percent in Guangzhou and 16.9 percent in Dongwan, but in 1993, they were 46.1 percent and 32.4 percent respectively.

The negative impact of foreign investments on the Zhujiang Delta's industrial structure can be summed into the following:

One, foreign investments' bias toward industrial fixed assets caused the agricultural sector to shrink, exacerbating the contradiction between industry and agriculture. Within the industrial sector, over-expansion of the processing industry's productive capacity caused serious imbalance between the processing industry and the energy, raw materials, and other basic industries, which posed an obstacle to further economic growth.

Two, because most foreign-invested enterprises are labor-intensive, the industrial organization is small to medium-sized, and although the secondary industry is growing very rapidly in terms of quantity, the trades and industries are technologically fairly backward; the product-mix is of low grade, and there is little growth momentum.

Three, due to the over-concentration of foreign investments in certain industrial sectors, and adding the tendency for the cities within the region to compete for foreign investments and carve out separate interests among themselves, the industrial mixes among different cities are almost identical: They have the same industries, redundant structures, and similar scopes. This kind of homogeneity together with the biased industrial mix of foreign investments greatly heighten the contradictions of the region's backward basic industry.

Four, the tertiary industry's development still lags behind, and because of foreign businesses' investment scope in the tertiary industry is too narrow, and there is insufficient investment in the newly-rising industries, the tertiary industry's development has remained at a low level.

#### **The Inevitability and Possibility of Upgrading the Industrial Structure and Making Greater Use of Foreign Investments**

According to the general law, at the industrialization stage, the industrial structure usually goes through three major changes: First, industry replaces agricultural as the main sector in the national economy; then the capital-intensive, heavy industrial sector replaces the labor-intensive, light and textile industries of the early stage of industrialization as the leading sector of the national economy; lastly, in the late industrialization period, technology-intensive, burgeoning industries replace the traditional, capital-intensive industries. During these three rounds of changing and upgrading the industrial structure, the tertiary industry becomes increasingly developed, and the industrialization process is complete, ushering in the so-called "post-industrialization society" where the tertiary industry becomes the lead sector. The Zhujiang Delta area has spent 15 years to make the transition from the early industrialization stage to the mid-industrialization stage. Now the region's economic

development is facing a second-round upgrading of the industrial structure; it may even skip a step.

Judging by the developed and newly-industrialized countries, industrialization generally takes more than 50 years. Britain took 90 years and the United States took 80 years to complete their industrialization process; Japan took 50-60 years; and Asia's "Four Small Dragons" took more than 30 years, which was quite a feat. It can be imagined how arduous it will be for us to spend the next 15 years to twice upgrade the industrial structure. But the poor existing industrial structure and the constraint on economic growth posed by the backward energy and raw materials and other basic industries clearly show the importance and urgency of readjusting and upgrading the industrial structure.

One important feature of this round of industrial readjustment and upgrading is to make a "catch-up-and-surfase"-style adjustment while maintaining a high rate of economic growth, which calls for substantial fund input. This round of adjustment is to upgrade to a capital-intensive and technology-intensive industrial-mix, which requires significantly more funds than the adjustments made in the early stage of industrialization. Relevant materials show that to achieve the industrialization goal in the next 15 years, economic growth must be sustained at 15 percent a year between 1996 and the year 2000, and in the first decade of the next century, the average growth rate should be 13 percent. Based on the relationship between economic and investment growth and other relevant factors, between 1996 and 2010, Guangzhou will need to spend in excess of 750 billion yuan on fixed assets investments. It cannot afford this huge fund input on its own accumulation alone. At this level, further expanding the utilization of foreign investments is the natural choice.

Looking at the domestic and foreign environments in which Zhujiang Delta will be expanding its use of foreign investments, although since the 1990's the international capital market has been tight and the flow has been uneven, the Asia-Pacific region where the Zhujiang Delta is located is today's investment hot point. Looking at the region's own conditions, 15 years of reform and opening up has gradually perfected both the tangible and intangible environments for foreign investments. Economic growth has spurred the development of the infrastructure and other tangible aspects, and more importantly, marketization and the external orientation of the economy have enabled the area to basically create an economic mechanism that links tracks with the international economy. This is a very important factor in attracting foreign capital and improving the quality and efficiency of foreign capital utilization.

### Strategic Changes To Further Expand the Use of Foreign Investments

The primary goal in upgrading the Zhujiang Delta's industrial structure is to make it more reasonable and advanced. From the perspective of the region's economic integration, we should promote the proper industrial distribution and division of labor and turn the homogeneous regional industry into one that is marked by complementarity and variety. To make the industrial structure reasonable and advanced, on the one hand, we should amplify and strengthen the existing superior industries and upgrade them in class and in quality. At the same time, we should vigorously develop some urgently needed raw materials and basic industries and accelerate the development of high and new technology industries as well as the tertiary industry.

In terms of overall strategy, instead of simply seeking more foreign investments, we should emphasize both quantity and quality and promote a proper, high-class structure that is compatible with the increased scope of foreign investments. Instead of going after more foreign-invested industries and profit, we should support the upgrading and optimization of the industrial structure. As for the readjustment of the world industrial structure, instead of primarily taking over at the lowest level as in the past, we should take giant steps to "take over, catch up, and keep up." To achieve this kind of strategic change and reach the goal of upgrading the industry, we should pay special attention to resolving the following issues:

1. *The issue of attracting foreign businesses to invest in the infrastructure, basic industries, agriculture, and other trades and industries that do not generate short-term profit.* The most direct goal of foreign investments is profit. The aforementioned are major investments, and it takes a long time to recoup the money, and to avoid investment risks, foreign businesses often are not willing to get involved. To address this, local governments can take out foreign loans to strengthen the infrastructure and basic industry. For direct international investments, we should make use of preferential industrial policies to attract foreign businesses, and by perfecting specific policies and rules and regulations, we can guarantee foreign businesses' long-term profit. In addition, we can try new methods of attracting foreign investments. Internationally, the so called BOT method is popular today. It primarily allows the government and private companies to enter into contract for individual projects, and the companies raise their own capital to design and undertake specific projects. Within a given period of time as agreed by both parties, those companies may run those projects as a way to repay their debts and recover their investments and earn a reasonable

profit at the same time, and when the agreed period expires, the project will be transferred to the government free of charge. Under the goal of achieving economic integration within the region, local governments in the Zhujiang Delta area should join together to test this method as a way to strengthen the area's infrastructure.

2. *The issue of expanding the investment domain of foreign businesses.* Today, foreign businesses in many trades and industries are optimistic and are eager to invest here but are held back by some policies regarding the opening up of certain industries. For example, with respect to the development of the tertiary industry in the Zhujiang Delta, foreign investments are still limited to guesthouses, hotels, and real estate; the scope is very narrow. So far, they have very little access to finance, insurance, transportation and communications, post and telecommunications, and other service industries. Looking at the situation around the country, it will take a fairly long process to open up the service industry. But as the most marketized and externally-oriented region in the country, the Zhujiang Delta should strive for some unique policies and charge ahead to open up its service industry to achieve its goal of vigorously developing its tertiary industry and accelerating the rate of industrialization.

3. *On the issues of raising the technological level of foreign investments and developing new and high-tech industries.* The majority of Zhujiang Delta's existing "three kinds of wholly and partially foreign-owned enterprises" are labor-intensive and low-tech enterprises. There are several ways to change this. One is to change the way foreign capital is brought in. During this new period of economic development, upgrading the industrial structure is an important developmental goal. We should slowly abandon the "three forms of import processing and compensatory trade"; instead we should find a more advanced way of attracting foreign investments. Two, we should diversify the channels through which foreign capital is brought in. It will be very difficult to raise the technological level if we limit ourselves to attracting Hong Kong's small and mid-sized enterprises' investments and maintaining a "store-front-rear-factory" relationship with them. We should turn to the developed countries and regions and actively bring in their money. In particular, we should attract internationally known financial groups and transnational companies in order to make technological breakthroughs. Most transnational companies are not seeking short-term profits; instead they emphasize market shares and prospects of long-term profit. We can make "trading market for technology" our strategy. Of course, even more important is our effort to perfect the investment environment, amplify the investment laws and regulations, extend national treat-

ment, and protect intellectual property rights and so on in order to promote the transnational companies' investments.

*4. The issue of handling the relationship between the cities' and counties' independent foreign capital utilization and the region's overall coordinated development to promote the region's proper industrial setup and division of labor.* The influx of foreign investments and the setting up of joint ventures and wholly foreign-owned

projects are independent market choices of the investors. Rigid administrative interventions will only bring ill consequences. In this regard, we should strengthen the region's overall macro guidance, but more importantly, we should set up a proper, effective profit allocation and coordination mechanism and use it to promote the reorganization of the stock of assets and the optimization of the incremental assets.

**Li Ruihuan Views Taiwan, Sino-U.S. Relations**

*HK2508073595 Hong Kong TA KUNG PAO  
in Chinese 24 Aug p A1*

[Dispatch from Beijing: "Li Ruihuan Says China Will Never Allow the Pursuit of 'Taiwan Independence', and Will Spare No Effort To Take Whatever Action"]

[FBIS Translated Text] In matters relating to the reunification of the motherland and its territorial integrity, the Chinese Government does not have any ground to give, stressed Li Ruihuan, member of the Standing Committee of the CPC Political Bureau and chairman of the National Committee of the Chinese People's Political Consultative Conference, when meeting yesterday with the delegation from the Chinese Manufacturers' Association of Hong Kong. He said the Chinese Government will take any action to prevent Taiwan from attempting to gain independence.

Liang Chin-jung, head of the Chinese Manufacturers' Association delegation, quoted Li Ruihuan as saying that China is not happy to see cross-strait relations becoming so tense, but he said this has been brought about by the attitude of the Taiwan authorities, and particularly that of Li Teng-hui. Li Ruihuan pointed out that the "pragmatic diplomacy" practiced by Li Teng-hui is, in fact, intended to internationalize the Taiwan issue, to try and make Taiwan "independent." He said: Li Teng-hui's action has to be supported by foreign countries; these countries include the United States and some others, none of which wants China to be unified and strong.

Liang Chin-jung said that Li Ruihuan did not specify whether the two successive missile tests recently carried out by China on the high seas near Taiwan were targeted at Taiwan.

On Sino-U.S. relations, Li Ruihuan pointed out to the delegation from the Chinese Manufacturers' Association that China did not really want its relations with the United States to come to the deadlock they are in, but the future of Sino-U.S. relations will depend on the attitude adopted by the United States on the issue of Taiwan.

**Article Analyzes, Criticizes Li Teng-hui**

*OW2408115195 Beijing XINHUA Domestic Service  
in Chinese 1206 GMT 23 Aug 95*

[Article by Da Li (6671 3810): "Li Denghui the Person"]

[FBIS Translated Text] Beijing, 23 Aug (XINHUA) — Recently, tense cross-strait relations have attracted people's attention. Li Denghui [Li Teng-hui], who created this situation all by himself, still overrating his own abilities, has expressed his desire to run for so-

called "popularly elected president." What kind of a person is Li Denghui exactly? Over the last several months, many Chinese-language newspapers on both sides of the Taiwan Strait and overseas have published a large number of facts about and criticized Li Denghui's betrayal of the "one China" principle and his words and deeds of splitting the motherland, gradually enabling people to see him in his true colors. To help people recognize him even better, let us make a further analysis of him.

**1. The True Colors of Splitting the Motherland**

After being vehemently attacked by the media at home and abroad recently, Li Denghui has explained more than once that he is definitely not creating "two Chinas" or "Taiwan independence." He even says those attacks are based on "ignorance of the facts" and "vicious misinterpretation." Who exactly is "ignoring facts"? Has he been misinterpreted after all? Facts speak louder than words.

Is Li Denghui creating "two Chinas"? Is he engaged in activities aimed at splitting the motherland? The answer does not depend on whether he admits it but on whether he is truly defending the country's sovereignty, territorial unity, and integrity. Jiang Zemin, general secretary of the CPC Central Committee and State President, pointed out in his 30 January 1995 speech: "Adherence to the principle of one China is the basis and premise for peaceful reunification, and China's sovereignty and territory must never be allowed to suffer splitting." Any words or actions aimed at creating an "independent Taiwan" should be firmly opposed. The propositions "split the country and rule under separate regimes" and "two Chinas over a certain period of time," etc., which contradict the principle of one China, should also be firmly opposed. His words not only reflect the strong aspirations of 1.2 billion Chinese people but also serve as a serious warning to all those who attempt to split the motherland.

It is precisely over this issue of principle that Li Denghui completely goes against the Chinese people's aspirations. It is known to all that there is only one China in the world and that Taiwan is an inalienable part of it. As a region of China, Taiwan is not a sovereign state at all. However, it is precisely over this matter that Li Denghui is striving to make an issue. He said during a meeting with "representative native government and public figures of Taiwan" on 29 September 1991, "Taiwan is already an independent sovereign state." During a meeting with the Democratic Progressive Party's so-called "UN lobbying group" on 1 October 1993, he said, "The Republic of China is currently ruling Taiwan, Penghu, Jinmen [Quemoy] and Mazu

[Matsu], having absolute sovereignty and governing power." During his press conference on 4 April this year after he visited the Middle East, he said: "The Republic of China is a sovereign state, and the Republic of China in Taiwan has a very good Constitution, a very good government, and a very good land"; and "there is no compromise between us and the Chinese Communists over the issue of state sovereignty." Li Denghui said on 2 July this year: "We must support the sovereignty of the Republic of China to the end." All these completely expose Li Denghui's true colors of determination to split the motherland.

To attain the goal of carving up state sovereignty and territorial integrity, Li Denghui has, centering on China's sovereignty, put forward in recent years many deceptive ideas and slogans which confuse and poison the people's minds. The main ones are as follow:

The first is the so-called "reciprocal political entities." This means that each side of the strait has its own political entity with "independent sovereignty" status. Its main purpose is to deny that the People's Republic of China is the sole legitimate government of China, which is recognized by the whole world. On 21 August 1992, while meeting and talking with "scholars and specialists on the mainland issue" of the island, he said: "The Chinese Communist authorities must proceed from a realistic stand and respect us as a reciprocal political entity." On 14 September 1993, while meeting with a foreigner, he said: "We have repeatedly stressed that the two sides of the strait are two coexisting political entities." On 8 April this year, at the so-called "State Reunification Committee," Li again stressed: Taiwan and the mainland are being administered "separately by two political entities, neither of which is under the jurisdiction of the other." Anyone can see that the "two reciprocal political entities" mentioned by Li Denghui means "two Chinas" or "one China, one Taiwan."

The second is the so-called "splitting up the two sides of the strait and exercising separate jurisdiction." This, like the idea of "reciprocal political entities," is a synonym of "two Chinas" or "one China, one Taiwan." On 13 January 1994, while answering questions by a reporter of the U.S. (PRESIDENTS AND PRIME MINISTERS) magazine, he said: "Since 1949, China has been in a state of being split up and under separate jurisdiction." On 14 April of the same year, in answering questions of a reporter of the ZIYOU SHIBAO [FREEDOM TIMES], he said even more openly: "At present, we cannot see one China. Where can we find one China?" "At present, one of the two sides of the strait is water and the other is oil. Water and oil cannot be mixed together." "The present stage is a stage of 'The Republic of China in Taiwan' and 'The People's Republic of China on

the mainland'." Evidently, the purpose of his stressing "splitting up and exercising separate jurisdiction" is nothing other than an attempt to apply mechanically the "North and South Korea pattern," and the "case of East and West Germany before their reunification" to seek legitimacy for a "status of independent sovereignty."

The third is the so-called "community of Taiwan lives," which is also called the "community of Taiwan's destiny." The sinister intention of this slogan is that it first separates the destiny of Taiwan from that of China as a whole and separates the destiny of the Taiwan compatriots from that of the Chinese nation as a whole, and then ties the government, the public, and the people of Taiwan all to Li Denghui's call for splitting up the motherland and confrontation with the mother mainland. On 6 February 1993, while meeting and talking with "legislators" of the Democratic Progressive Party, he said: I hope the 20 million people on the island "can identify themselves with the 'Republic of China'" so that "we can become a 'community of destiny' with a close relationship." That Li Denghui has repeatedly advocated such ideas in recent years is entirely to boost the arrogance of the "Taiwan independence" forces and encourage them and is an attempt to lead the people of Taiwan to the wrong road of splitting up China.

The fourth is the so-called the "international existence space." This means to develop relations with various countries with the status of an independent "sovereign country" and to attempt vainly to make use of international power to exert pressure on the 1.2 billion Chinese people so that the Chinese people will make concessions on the position of sovereignty, and eventually Taiwan can attain its goal of joining the United Nations. As early as 22 May 1990, shortly after assuming office, he said at a press conference: "The development of the Republic of China in the international community through pursuing a pragmatic foreign policy, the expansion of international relations, and the increase in the number of countries with diplomatic relations with us does not affect national reunification in any way." In the past two years, he has even buckled on his armor, gone into battle, paved the way with money, targeted the United States, Japan, and the United Nations, and made great efforts to practice "pragmatic diplomacy." Recently, he again asserted in the United States that he wanted to "challenge impossibility." This fully shows that his activities of splitting up state sovereignty and territorial integrity have reached the stage of staking everything on a single throw.

Li Denghui has another "masterpiece" that he is very pleased with and that actually is a conglomeration of various slogans for splitting up. It is the so-called "The Republic of China in Taiwan." He has repeatedly

stressed that "The Republic of China in Taiwan is a country with independent sovereignty." It seems as if such a title is different from "The Republic of China," which was overthrown in 1949; thus it avoids ridicule and at the same time it will not be regarded as "The Taiwan Republic," a name that could cause trouble. However, during an interview by a reporter of Taiwan's MIN CHUNG JIH PAO [MIN CHUNG DAILY NEWS], Peng Mingmin [Peng Ming-min], his "godfather of Taiwan independence," whom he has regarded as his "teacher and friend," said: "It is clearly a Taiwan government, but it is not admitted as such."

"Taiwan is the Taiwan Government, but it is rendered as 'The Republic of China in Taiwan.'" All such moves are playing with words and are meaningless.

Li Denghui has been bent on splitting up state sovereignty and has refused reunification. To attain his goal, he has been purchasing arms and ammunition in large quantities and has conducted from time to time military exercises which take the mother mainland as the enemy. He has set up various obstacles to the "three exchanges" (exchange of mail, exchange of air and shipping service, and exchange through trade) with us.

Li Denghui's words and deeds of splitting up the motherland, dismembering China, and opposing China's reunification are exactly the same as the anti-China views of some western countries. From the undisguised chorus of Li Denghui and the anti-China forces, it is not difficult to understand why some anti-China forces in western countries have admired Li Denghui so much and have gone all out to give him support!

## **2. The Ideological Root Cause of Currying Favor With Foreign Countries and Being Close to "Independence"**

Although he is a Chinese, Li Denghui has deep feelings for Japan and the United States and has none of the national feelings of the Chinese. Why has he harbored and connived at "Taiwan independence" activities and resisted reunification so much?

It takes more than one cold day for the river to freeze three feet deep. If we take a look at the past of Li Denghui, it will not be difficult for us to find an answer to this. Li Denghui's ancestral home is in Yongding, Fujian. He was born in Sanzhi [Sanchih] Township of Taipei [Taipei] County on 15 January 1923. His father, Li Jinlong [Li Chin-lung], was once a policeman for the Japanese colonialists and was an out-and-out traitor to China. Li Denghui grew up in such a family background and received a thorough education on being a "subject of the emperor" of Japan. He is the person in charge of the Taiwan authorities, but he is indifferent

to the hardships of the Taiwan people under Japanese colonial rule. Besides, he said proudly that he had been a Japanese "national" for 22 years. The Taiwan press disclosed that he particularly likes to unburden his mind to Japanese "friends" who are keen on splitting up China. In his "conversations" with Ryotaro Shiba, he leaked the secret that the Kuomintang regime is a "regime from outside," and he wants to lead the Taiwan people to establish a "country" of the Taiwan people just as Moses did in "Exodus." He has prostrated himself in worship of the ruthless Japanese rule in Taiwan for 50 years. He said: "Since my wife has received a Japanese education and is good at family book-keeping, I can keep my mind on my work." He said that the Japanese of the colonial times left many things behind" and called for "assessing them from a more scientific point of view." Last year, Li Denghui said to Professor Mineo Nakajima of The Tokyo University of Foreign Languages: "Why did Prime Minister Tomiichi Murayama apologize for things such as the war 50 years ago? It is no longer necessary. What is more important than that to Japan should be acquiring a clear vision for the future as the leader of Asia!" This year is the 50th anniversary of victory in the war of resistance against Japanese aggression, and people of various countries in Asia and Australia who were trampled upon by the Japanese aggressors have conducted commemorative activities one after another. However, we have not seen any similar move by Li Denghui. No wonder Japan's SHUKAN POSUTO said, "President Li (Denghui) has deeper Japanese feelings than the Japanese today."

On 13 January 1988, Jiang Jingguo [Chiang Ching-kuo] died and Li Denghui succeeded as the leader of the Taiwan authorities. To win the support of the United States, he openly stated that "the Americans support us" and that "all the Republic of China does in Taiwan conforms with the spirit of the founding of the United States." He has also stressed on many occasions his anti-communist stand and said that it is necessary to coordinate with U.S. anti-China forces to bring about peaceful evolution in China. This is how he goes along with the United States.

Li Denghui also has inseparable ties with "Taiwan independence" forces. Among them, Peng Mingmin, "the godfather of Taiwan independence," was a schoolmate of Li Denghui at the Kyoto Imperial University in Japan. After they returned from Japan, they entered Taiwan University at the same time and lived in the student dormitory. Peng and Li had a close relationship with Liu Qingrui [Liu Ching-Jui], an associate professor of the Political Department of Taiwan University, who took up his post at Taiwan University after returning from the Kyoto Imperial University. At that time, the teach-

ers and students of Taiwan University called them the "iron triangle."

In the early 1960's, Liu Qingrui secretly concocted a "New Constitution of Taiwan," but he failed to complete it because he died. In 1964, Peng Mingmin was arrested and sent to prison for conducting "Taiwan independence" activities. Peng Mingmin personally said: "The day before my arrest, I was with Li Denghui." While Peng Mingmin was in the United States, Li Denghui secretly asked his students and friends to get in touch with Peng. Ever since, the relationship between them has continued. Peng Mingmin once said openly that when he was in the United States, he often wrote to Li Denghui and that Li Denghui attached great importance to his views. In February 1990, when there were internal conflicts at the upper level of Kuomintang, Peng Mingmin openly declared that he supported Li Denghui in standing for election as the eighth "president" of Taiwan. He has expressed affirmation and support to policies pursued since Li Denghui was reelected "president." After Li Denghui was elected "president," he immediately wrote a letter to Peng Mingmin, who was far away in the United States, inviting him to come back to Taiwan to attend a "national affairs meeting" to "jointly discuss national affairs." In May 1992, Peng Mingmin made a telephone call to Li Denghui advising him to decide on using "direct election by the people" in future "presidential" elections in Taiwan. At the end of last year, Li Denghui strongly urged Peng Mingmin to return and settle down in Taiwan. For many years, Peng Mingmin has been a "super assistant" to Li Denghui. Taiwan's being an independent sovereign country, splitting up the two sides of the strait and exercising separate jurisdiction, "direct presidential election," and other political programs of Li Denghui have originated from Peng Mingmin's ideas. Facts in the past few years show that it is he who supported the amendment to the "one hundred articles criminal law," which makes the activities of "Taiwan independence" "legitimate"! It is he who tacitly consented to the adoption of the "Taiwan Independence Party program" of the Democratic Progressive Party! It is also he who has made use of the opposition parties and the "Taiwan independence" forces to attack personalities within the Kuomintang who oppose "Taiwan independence" and to create a split in the Kuomintang!

Before the death of Jiang Jingguo, Li Denghui was always modest, courteous, and prudent. In the eyes of Jiang Jingguo, Li Denghui was a person of few words, introverted, with little "political ambition" and "desire for power," and was a tame lamb without his own personal group or faction. The fact is Li Denghui was not a courteous and tame lamb; he simply had to yield

to the environment of that time and had to exercise patience to wait for an opportunity. Last year, in his "conversations" with Ryotaro Shiba, he said: "I am not clear whether Mr. Jiang Jingguo really wanted me to be his successor." "Under such political conditions, if Mr. Jiang Jingguo had said a word or made a gesture, I might have been destroyed!" Because of constraint and expediency, Li Denghui does not maintain the same attitude, and his deeds do not match with his actions on many questions. He usually looks like a scholar but is treacherous and cunning in political conflicts and trickery. On the one hand, he said he wanted to "give way to better people," did not want to be "reelected," and advocated "replacement of one generation by another"; on the other hand, he has made various kinds of preparation for being reelected "president." On the one hand, he said that Taiwan was a part of China and that he adhered to the policy of "one China" and the policy of reunification. On the other hand, he said, "I have never said one China before" and that Taiwan's being a part of China is a "queer dream." To sum up, Li Denghui has exercised patience to seek opportunities. He has used the dual tactics of using human language when speaking to human beings and using devils' language when speaking to devils. He is quite deceptive. In his early years, he joined the Communist Party. Later he withdrew from it because of changes in the situation and joined the Kuomintang. He has created and made use of factional contradictions of the Kuomintang and unscrupulously discriminated against those who hold views different from his, to ensure his dictatorial privileges. He has made use of the "popular will" to carry out his activities of splitting up the motherland. He is an out-and-out schemer and a downright politician. Basing the hopes of the Taiwan people on becoming masters of the country and the steady development of cross-strait relations on Li Denghui is tantamount to climbing a tree to catch fish.

### 3. Sham Is Sham, and the Mask Must Be Stripped Off

Since coming to power, Li Denghui has kept shifting like clouds on the question of China's reunification. He has been disguising himself in various ways to hoodwink the Taiwan public and mislead public opinion in an attempt to achieve his treacherous purposes. Now that Li Denghui's political schemes of conniving with "Taiwan independence" elements in dividing the country have fallen through and been exposed, his various masks should also be completely stripped off.

First, he plays the "popular will" card in a big way and makes use of it to carry out his political schemes.

Li Denghui uses the term "popular will" very frequently. He cannot open his mouth without talking about "popular will," making himself stand out as a person pleading on behalf of the people. He uses various tricks to confuse people and covers his desire for power and political schemes with the aura of "popular will."

In fact, Li Denghui made his dream of power come true by making use of "popular will." He used the "constitutional reform" as a means to Taiwanize the Kuomintang. He excluded those with different views, propped up members of his clique, placed his trusted followers in key positions, and took all party, government, army, intelligence, and financial power into his own hands.

Li Denghui has not only seized power but has been attempting to divide China in the name of "popular will." He said: What makes him most deeply concerned at heart is nothing but "the people's ardent expectation of the fulfillment of their wish." Li Denghui frankly said that this "wish of the people" is that "the Republic of China has not been able to win due diplomatic recognition from the international community."

In recent years, Li Denghui has time and again clamored that "the Chinese Communists have suppressed Taiwan and prevented it from gaining international living space everywhere." As a matter of fact, Taiwan has broad living space in nongovernmental economic, trade, and cultural relations. But this is not what Li Denghui wants. He is attempting to create international "living space" for "two Chinas" or "one China, one Taiwan." As everyone knows, Taiwan products are on sale in various parts of the world, and Taiwan tourists travel to every corner of the five continents and four oceans. According to incomplete statistics, Taiwan has so far joined nearly 800 international nongovernmental organizations. If "the Chinese Communists have suppressed Taiwan and prevented it from gaining international living space everywhere," then how can the development of Taiwan's foreign economic and trade relations be explained?

The Chinese Government is steadfast in its stand of one China and national reunification and opposed to Li Denghui's acts of creating "two Chinas" internationally. He cannot carry out his political schemes in the United Nations, nor can he do so in most of the world's countries that have diplomatic relations with China. Because it is difficult for him to carry out dividing activities, Li Denghui usurps the name of "popular will" to arouse popular discontent and to set himself against the Central People's Government. He wants to "do his utmost to challenge the impossible" and to use the hard-won wealth of the Taiwan people to pay for his activities of dividing the motherland.

"Sovereignty lies in the people." This is also a "popular will card" being played by Li Denghui in attempting to carry out his political schemes. Li Denghui's "sovereignty lies in the people" refers only to the Taiwan people or to "the 21 million compatriots of Taiwan, Penghu, Jinmen [Quemoy], and Mazu [Matsu]" on whom he has painstakingly put stress. This is a hint that Li Denghui is foreshadowing the next step of "holding a referendum" later. Since the "people" of Taiwan can elect the "president" by ballot today, then they can use the same method to change the name of the country tomorrow. How similar this is to the "plebiscite" publicly advocated by the Democratic Progressive Party!

This is the true intention of Li Denghui's saying glibly that "sovereignty lies in the people."

Li Denghui has made a great fuss about "popular will," but what he has done runs counter to the will of the people on both sides of the strait. Having experienced the hardships of domestic troubles and foreign invasions as well as family separation, compatriots on both sides of the strait ardently hope for an early reunification of the country. Now we should carry out the "three exchanges" [exchange of mail, exchange of air and shipping service, and exchange through trade] as soon as possible. However, Li Denghui acts in opposition to what really reflects the will of the people. In recent years, nearly a million Taiwan compatriots have come to the mainland of the motherland to engage in various exchanges every year. A pressing matter of the moment is to carry out the "three exchanges" directly, since they stand high in popular favor. The voice of the Taiwan people's ardently hope for the "three exchanges" is getting louder and louder with each passing day. Li Denghui not only does not want to do this good deed, which is beneficial to the country and its people and will bring material benefits to compatriots on both sides of the strait, but is trying to obstruct it in every possible way by setting up one obstacle after another.

The most intense aspirations among the compatriots on both sides of the Taiwan Straits are for a constant improvement of cross-strait relations and a step-by-step achievement of peaceful reunification. To fulfill these grand aspirations of all the Chinese people, the CPC and the Central People's Government have made great efforts. Comrade Deng Xiaoping's scientific concept on "one country, two systems" and President Jiang Zemin's eight-point proposition on promoting a peaceful reunification of the motherland have presented realistic and reasonable views on how to make the longing of the Chinese people come true. However, what has disappointed and angered all the compatriots on both sides of the Taiwan Strait who are hoping for China's reunification is that Li Denghui, who keeps

pledging to "take the people's demand as his own wish," has refused to respond to President Jiang's serious proposal. Instead, he went to the United States to collude with anti-China forces there so that they would work as accomplices in splitting China. How could the scum of the nation [min zu bai lei 3046 2469 2408 7352], who is selling out Taiwan compatriots' interests and obstructing national reunification, chatter about "people's aspirations." It is indeed the greatest self-satire.

Second, he is carrying out the scheme of "two Chinas" under the "one China" banner.

Over the seven years since Li Denghui took office, he has frequently waved the "one China" banner, but people have seen from his words and deeds that he is playing a double-dealing trick.

Soon after Li Denghui took office, needing to consolidate his power and position, he often talked about the "one China" principle. During his first press conference after his succession to the office in February 1988, he unequivocally said: "We have only the policy of one China and not two Chinas. There is only one China, and we must achieve reunification." In a congratulatory message in October 1990, Li Denghui said: "There is only one China, and it should and must be reunified. None of the Chinese people should evade the responsibility of reunification, nor should any Chinese people shun efforts for reunification."

However, once his power became firm, and particularly since he expelled the mainlanders from the core of power and gained complete control of the party, the government, the armed forces, the secret service, and personnel affairs, Li Denghui has begun to deny "one China."

First of all, he rejected the principle of "one China." In a banquet for "national policy" and strategic advisers on 16 December 1992, Li Teng-hui said: "People will misunderstand us if all we talk about is adherence to one China, for internationally one China is the Chinese Communists' 'People's Republic of China.' ... [ellipses as received] For this reason, we would be, I believe, playing into their hands if people only talk about one China." In a February 1993 meeting with DPP "legislators," he further revealed that "I advocate Republic of China in Taiwan; I have never said anything about one China."

Betraying the "one China" principle, he started advancing the ideas of "one country, two governments," "an equal political entity," "two Chinas as a phase," and eventually promoting openly "one Republic of China on Taiwan" and "one People's Republic of China on

the mainland." In a meeting with DPP "members of the National Assembly" in April 1994, Li Teng-hui said: "The question of one China does not exist now; this question will arise only after reunification. What exists now across the straits are two separate states."

After throwing out the idea of "two Chinas," Li Teng-hui has stepped up efforts to promote his scheme of splitting up China's sovereignty. The United Nations is an international organization, and only sovereign countries can be members. Singing in chorus with the DPP, an advocate of "Taiwan independence," Li Teng-hui has made a great fuss about "joining the United Nations" over the past three years.

Facts amply demonstrate that the "ROC in Taiwan" promoted by Li Teng-hui is not different in essence from the "Republic of Taiwan" proposed by the DPP. In view of the recent waves of protest against him at home and abroad for plotting "Taiwan independence" and splitting the motherland, Li Teng-hui has again put up another face. At the "National Assembly" on 1 August, Li Teng-hui pointed out the right way for the DPP by saying the DPP's advocacy of "Taiwan independence" and its position against reunification are "not very helpful" and "not very good" for Taiwan. He also counselled them that "the DPP should know the strength of the ROC on Taiwan and the work needed to maintain Taiwan's continued progress." The DPP followers, who are open advocates of "Taiwan independence," did not appreciate Li Teng-hui's "good intentions" and soothing advice; instead, they removed his mask of "false reunification but true independence." Zhang Fumei [Chang Fu-mei], the DPP's "National Assembly" convener, said: Li Teng-hui is a man of great political skills" and "what he truly identifies with in his heart is Taiwan." Xu Yangming [Hsu Yang-ming], a DPP member of the "National Assembly," said: "Li Teng-hui's murky proposal for the 'ROC on Taiwan' is a model for an independent Taiwan," and "he has no right whatsoever to criticize Taiwan independence." He believes that Li Teng-hui's remarks were designed to allay the spate of criticism against him from the Chinese Communists and "also to gain votes for his reelection bid."

Li Teng-hui's plot of "false reunification but true independence" is full of flaws; it can no longer cover up his evil intent to sabotage reunification and split up China.

#### 4. The Root Cause of the Instability of Relations Between the Two Sides of the Strait

In recent years, through the joint efforts of people on both sides of the strait, contacts between the two sides have become increasingly frequent, and people on both

sides are making efforts to create conditions for the early realization of peaceful reunification of the motherland. However, Li Denghui has stubbornly adhered to his stand of opposing communism and resisting peace talks. He holds a hostile attitude toward the mainland side of the motherland, and has gone farther and farther down the road of splitting the motherland. He has flagrantly pushed "pragmatic diplomacy," "returning to the United Nations," and other activities. In particular, his visit to the United States in June aggravated the deterioration of relations between the two sides of the strait. All Chinese people, including the people in Taiwan, have clearly seen that Li Denghui is the root cause of the deterioration of relations between the two sides of the strait and is pushing people in Taiwan towards social unrest and even to the abyss of war [zhan luan shen yuan 2069 0052 3234 3220].

In December 1988, shortly after assuming power, Li Denghui clearly announced: "The relationship between the Chinese Communists and us is a relationship of hostility. If we cannot unify the mainland, the Chinese Communists will unify us."

On 29 January 1990, Li Denghui again starkly said: "So long as the Chinese Communists still exist and the problem of China's reunification cannot be solved, we cannot have real stability and safety." While considering the CPC and the Chinese people as his implacable foes, he said glibly to a reporter of the "Voice of America" that "the urgent thing is to eliminate hostility and establish a foundation of mutual trust" in relations between the two sides of the strait. Is it not very funny that Li Denghui, who is hostile toward the people on the mainland of the motherland, often talks about mutual trust on official occasions?

Denghui, who goes back on his words and is always chopping and changing, has repeatedly dished up the "father and son argument," which is another proof of his confused logic. On 15 September 1993, he said to UPI president (Vazquez): "The Chinese Communists have considered relations between the two sides of the strait as 'relations of father and son'; that is, they are the 'central government' and we are the 'local government.'" However, one year later, Li Denghui himself dished up a "father and son argument." On 24 March this year, he drive/d in a speech: "We don't have to be afraid of the Chinese Communists. The Republic of China has been in existence for 84 years, while the Chinese Communists have existed only a little over 40 years. We are the father, and the Chinese Communists are our son." In March 1994, several ruffians murdered a number of tourists from Taiwan for their money at Zhejiang's Qiandao Lake. The government of the motherland properly handled the case and punished the

murderers according to the law. However, Li Denghui let loose a torrent of abuse and said: "The Chinese communists are like an evil force. They have ganged up to form a party like bandits." He also spoke openly to agitate the people: "The people should long forsake this kind of government." His deep hatred against the CPC, which is respected by the people and the people's government, is fully expressed in his words and actions.

How can we hope that such a person, who hates the Chinese people will promote and improve relations between the two sides of the strait? On the eve of the Spring Festival in 1995, General Secretary Jiang Zemin put forward an eight-point proposal for promoting the development of relations between the two sides of the strait and the great cause of reunifying the motherland. His proposal has been enthusiastically welcomed by the Chinese people at home and abroad. This should be an extremely good opportunity for the Taiwan authorities to improve relations between the two sides of the strait. However, Li Denghui is dead set on practicing splittism and independence. In his "six-point" response, the first point calls for "seeking China's reunification on the basis of the practical situation of two separate administrations on the two sides of the strait." His fourth point further called for "taking part in international organizations by the two sides on an equal footing and meetings of leaders of the two sides in a natural way by taking advantage of those occasions." In other words, he has blocked the road of negotiations between the two sides of the strait on the basis of "one China" and "peaceful reunification."

For a time, shortly after he assumed power, Li Denghui called for "reunification," stating the need to develop cross-strait relations. He set up the so-called "Committee for National Reunification" and approved the "Outlines for National Reunification" and the "Regulations Governing Relations Between People on the Two Sides." After he gained a firm foothold, he started to push gradually but energetically a peaceful separatist line and advocated the so-called "parallel development of cross-strait relations and pragmatic diplomacy." His real intention was to intensify efforts to create division and separate rule behind the facade of developing cross-strait relations.

Li Denghui works in collusion with international anti-China forces, but he has miscalculated the situation. Thinking that the U.S. dollar in his hand is almighty, he has got so carried away that he has pledged to "do the best to challenge the impossible" and "break the diplomatic isolation." This has evoked the wrath of all the Chinese people and has been unanimously condemned by Chinese nationals at home and abroad. Like all the diehards in history, Li Denghui's performances over the

last several years have torn away his masks one after another and bared his ferocious real nature. During his heart-to-heart talks with Japan's Ryotaro Shiba, Li Denghui talked glibly about the so-called "sorrow of being born Taiwanese." In fact, the real "sorrow" is to let people like Li Denghui, who does not know what China is, usurp the leadership of Taiwan. The 10,000-person "I am Chinese" mass parade held in Taipei on 13 August expressed the aspirations of the vast number of Taiwan compatriots. Chinese people on the two sides have gone through century-long sufferings and have undergone aggression and bullying by imperialists. Chinese people do not want to see that tragic history happen again. Our common fundamental interest is to have a reunified, prosperous, and strong motherland. We must put an end to the tentative separation and hostilities between the two sides, improve cross-strait relations at an early date, and work together for our economic development. People on neither side of the strait want any more social unrest or war. However, everything Li Denghui has done goes radically against the will of the people. He has wantonly instigated cross-strait hostilities and wildly attempted to push the motherland toward the disastrous abyss of division. The policy of "division and separate rule" and "pragmatic diplomacy" that he upholds is a policy for creating "two Chinas," or "one China, one Taiwan" — a policy which the Chinese people will never compromise on or tolerate because it is a major issue of principle closely related to the Chinese nation's fundamental interests and state sovereignty. When there are conflicts arising from such a fundamental principle, cross-strait relations can never be peaceful. Currently, the feelings of people on the island are volatile, the stock market has plummeted, and the public lacks a sense of security. The fundamental cause of these problems lies in Li Denghui's irresponsible line and policy. The Taiwan people's fortune and misfortune can by no means be controlled by people like Li Denghui. Sweeping Li Denghui into the dustbin of history is the common historical responsibility of Chinese people on the two sides of the strait!

**'Experts,' Scholars View UN Return Attempt**  
**HK2508033495 Beijing RENMIN RIBAO OVERSEAS EDITION in Chinese 15 Aug 95 p 5**

[By staff reporters He Xuzhao (0149 3556 2507) and Wang Lianwei (3769 6647 0251): "Some Taiwan Affairs Experts and Scholars in Beijing Say That Taiwan Has No Right To Return to the United Nations"]

[FBIS Translated Text] Beijing, 14 Aug (RENMIN RIBAO)—"Taiwan has been an inseparable component of China's territory since ancient times. As a province of China, Taiwan simply has no right to 'return' or join

the United Nations in any form!" At a meeting held today, cross-strait experts and scholars sternly criticized on just grounds the speeches and action of the Taiwan authorities in creating "two China's" and "one China, one Taiwan."

The meeting is the third "Symposium on Cross-Strait Relations," sponsored by ZHONGGUO XINWEN SHE. A number of experts and scholars, persons responsible for relevant departments, and figures from the capital's journalistic circles participated in the symposium focused on "criticizing the attempt of the Taiwan authorities to join the United Nations."

Lian Xishen, professor of the University of Political Science and Law, pointed out that the "return to the United Nations" is one of the strategic steps of the Taiwan authorities to create "two China's" and "one China, one Taiwan." They refused to give up following the setback encountered in this regard at the 1993 UN General Assembly. The Taiwan authorities asserted that they will "regard it as a long-term task" and "stress and strive for it every year." Based on the lessons drawn from the failure last year, they readjusted their tactics and increasingly adopted a variety of means. Taking the opportunity of the 50th anniversary of the signing of the UN Charter and the Sixth Economic Forum held in Montreux, Switzerland, Li Denghui [Li Teng-hui] and Lian Zhan [Lien Chan] personally came out and used various means to stir up the "wind of joining the United Nations" aimed at splitting China. They also prepared all sorts of "reasons" for confusing the public. While resolutely refuting Li Denghui's attempt to split the motherland, it is necessary, based on the theory of law, to fundamentally criticize his fallacies.

Guo Zhenyuan, research fellow at the China Research Center for International Studies, pointed out in his speech that the United Nations is an international governmental organization of sovereign countries and that all its members must be sovereign states. A country can only have an integrated sovereignty, which cannot be split or shared. The PRC is the sole legitimate representative of China's sovereignty. As a component part of China, Taiwan's attempt to join the United Nations violates the norms of international law and the UN Charter.

Gu Huaming, a diplomatic expert, pointed out in his speech that the Taiwan authorities illegally usurped the seat of the PRC in the United States for 22 years. Through long-term struggles, the 26th UN General Assembly in 1971 adopted Resolution No. 2758 with an overwhelming majority, which used explicit terms to "recognize the PRC as the sole legitimate representative of China in the United Nations." From then on, the

question of China's representation to the United Nations was reasonably and thoroughly resolved politically, legally, and procedurally. Unwilling to be resigned to defeat, Li Denghui and his followers wantonly attacked Resolution No. 2758, saying that it was a "product of the Cold War" and is "outdated." Their motive, which is quite clear, is naturally subject to resolute opposition of the UN Charter and member nations which have signed the UN General Assembly resolution.

Shen Zhifa, expert of ARATS [Association for Relations Across the Taiwan Strait], said in his speech that the activities led by Li Denghui on joining the United Nations are characterized by using money to buy support on the one hand and concocting terms which sound right but are actually wrong, such as striving for "activities in the international space" for Taiwan. His swindling tricks will certainly be exposed. Li Denghui's adherence to splittism and confrontation will do nothing good for Taiwan compatriots.

Ma Jun, research fellow at the International Research Department of the Institute of Diplomatic Affairs, analyzed the changes in international law and Chinese history and pointed out that there are no more controversies over China's representation in the United Nations. Li Denghui's clamor to rejoin the United Nations is naked behavior of "two China's" and "one China, one Taiwan." He will never succeed in going in for permanent splittism.

Professor Liu Wenzong from the Institute of Diplomatic Affairs pointed out: A just cause enjoys abundant support while an unjust cause finds little support. Li Denghui's attempt to return to the United Nations is not only opposed by the 1.2 billion Chinese people, includ-

ing the Taiwan compatriots, but is also opposed by all countries and figures in the world who uphold justice. For example, after making numerous statements, UN Secretary General Boutros Ghali explicitly reiterated on the eve of the activities to mark the 50th anniversary of the UN Charter that "Taiwan, which is not a member of the United Nations, cannot rejoin this organization." Although it is impossible, Li Denghui still wants to challenge against anything impossible. He willfully made trouble on the eve of the UN General Assembly held every year to mislead the public. This fully indicates his stubborn stance of creating "two China's" or "one China, one Taiwan." We must follow his moves with close attention and continue the struggle.

#### Mainland Hosts Cross-Strait Aviation Symposium

*OW2408151895 Beijing XINHUA in English  
1505 GMT 24 Aug 95*

[FBIS Transcribed Text] Beijing, August 24 (XINHUA) — More than 100 representatives from the civil aviation and travel industries from both sides of the Taiwan Straits attended an air transport symposium here today.

They discussed the possibility of direct air routes between the mainland and Taiwan, aircraft maintenance, airport operation and air transport agencies.

The representatives agreed that direct air links across the Straits will play an important role in expanding economic co-operation and other exchanges between the two sides of the Straits.

This is the third time such a symposium has been held. The previous two were held in Shanghai in 1993 and in Taipei [Taipei] last April.

**Military Denies 'Agents' Arrested by Mainland**

*OW2508050295 Taipei CHUNG-YANG JIH-PAO  
in Chinese 22 Aug 95 p 1*

[FBIS Translated Text] Our relevant military unit yesterday solemnly denied a rumor that the Chinese Communists have arrested five of our intelligence agents, who had travelled to the mainland to gather intelligence on the Chinese Communists' military exercises in the East China Sea. The military unit said absolutely nothing of the sort had happened.

A military official said: As far as the Chinese Communists' second military exercise in the East China Sea is concerned, we sent no agents to the mainland to gather information, we have simply been monitoring the exercise closely.

According to another official from the military intelligence department, the Chinese Communists are used to releasing information on the arrest of our intelligence agents when cross-strait relations are strained or have taken a downturn. He said this was an old trick of the Chinese Communists.

**More on 'Agents'**

*OW2408115795 Taipei Voice of Free China  
in English 0200 GMT 24 Aug 95*

[FBIS Transcribed Text] Several Taiwan intelligence agents were arrested over the past few days by mainland authorities. They were arrested on charges of attempting to spy on the deployment of mainland troops in southeastern Fukien [Fujian] and Chekiang [Zhejiang] Provinces.

A Hong Kong report says the alleged intelligence agents working for Taiwan were captured as they were trying to smuggle themselves to the two mainland coastal provinces in fishing boats.

The ROC [Republic of China] Ministry of National Defense declined to comment on the rumored arrest of Taiwan spies, but emphasized they would keep a close watch on mainland troops intensifying preparations for the second round of guided missiles and live artillery tests.

**Military Adopts 'Cautious' Approach to Mainland**

*OW2508055595 Taipei LIEN-HO PAO in Chinese  
22 Aug 95 p 4*

[FBIS Translated Text] Despite the threat of the Chinese Communists' military during their second military exercise, our Republic of China [ROC] armed forces have adopted a cautious, "seeking no battle" attitude to respond to any moves made by the Chinese Commu-

nists to approach our offshore islands. They have not repelled or fired at the Chinese Communists' fishing boats, nor did they shoot at the Chinese Communists' fighters. However, they have stepped up combat readiness and have made preparations to fight.

It has been learned that during the Chinese Communists' second missile test and live artillery drill, mainland fishing boats approached Matsu's seashore and fighter aircraft, suspected to be those of the Chinese Communists, have "deviated from their navigation routes" to intrude into Matsu's air space. ROC troops were on alert, but did not fire at them.

After 2100 hours on 15 August, more than 100 mainland fishing boats with lights sailed towards Matsu. Soon after 2200 hours, three of the fishing boats were only 200 meters from the shore. Two of the three boats at one time pulled in to the shore and then left.

The garrison area's commanding officer, however, ordered that coast guards should not fire at mainland fishing boats. After the incident, though, the Ministry of National Defense [MOND] refused to comment on how troops under the Matsu Defense Department had handled the situation.

At 2000 hours and again at 2400 hours on 17 August, unidentified planes flew across Matsu. Our troops did not shoot at the sky, even though they had immediately prepared for air defense firing. On the daytime of 18 August, the Chinese Communists' planes again flew across Matsu in two batches. They did not make any offensive moves in the sky. ROC troops were on the alert, but did not fire artillery. A military official said that during the Chinese Communists' first ballistic missile test in July, mainland fishing boats approached Kinmen, but the official said ROC troops did not repel them with shots.

According to military sources, during the first ballistic missile test, the ROC air force's routine exercise, originally scheduled for the R-9 restricted navigation zone around the central line of the Taiwan Strait was canceled. The air force thought that since the mission was routine and was to be implemented without crossing the central line of the straits, it would not irritate the Chinese Communists. It had originally, therefore, planned to carry out the mission anyway. However, considering that the R-9 exercise zone is nearer to the mainland, and that the distance between the zone and the mainland is less than that between Mainland China's military exercise area and Taiwan, the MOND ordered Air Force General Headquarters to postpone the exercise to avoid any incidents resulting from misunderstandings.

It has been pointed out that the R-9 zone is usually used by Hsinchu and Taichung Air Base fighters. It is only 50 km away from the mainland's Pingtan Island, and it is just 100 km from the zone to the nearest Chinese Communist air base, Lungtien [Longtian].

A MOND official said: During the Chinese Communists' exercises, our armed forces have adopted a cautious attitude in responding to the provocative moves of the Chinese Communists. This was not because they were "afraid of fighting," but because they did not want military moves to further deteriorate the situation. In fact, ROC troops at various levels have stepped up combat readiness. The General Staff Headquarters and the Army, Navy, and Air Force General Headquarters have been extremely busy in making various operational preparations and relevant arrangements and logistic operations plans, so as to get ready to "fight in a war."

#### **Lien Calls For Expanded Exchanges With Mainland**

*OW2508101895 Taipei CNA in English  
0944 GMT 25 Aug 95*

[By Debbie Kuo]

[FBIS Transcribed Text] Taipei, Aug. 25 (CNA) — Premier Lien Chan Friday ordered accelerated efforts from Taiwan to step up communication and exchanges with Mainland China, despite strained cross-Taiwan Strait relations.

In an inspection tour of the Mainland Affairs Council [MAC], the highest government agency charting Taiwan's mainland policies, Lien said the government has a clear-cut position on cross-strait relations and its determination in seeking the peaceful unification of China stands.

Lien said that before unification, both Taiwan and Mainland China should demonstrate mutual trust and respect, paving the way for substantive exchanges and understanding.

The premier asked MAC to focus work towards Mainland China in eight directions regardless of Beijing's recent belligerent moves.

First, he urged the MAC to strengthen communication and exchanges with Mainland China under the framework of the national unification guidelines.

Secondly, he said the MAC should develop closer ties with related government agencies in an effort to beef up the strength of negotiations along economic, political, cultural and social fronts.

To meet the ever-changing demands and situation across the Taiwan Strait, Lien said it is vitally important for the MAC to nurture more talent and specialists.

Lien ordered the MAC to study the feasibility of establishing an emergency aid formula exclusively for rendering timely help to Taiwan tourists and investors on the mainland.

In addition, Lien hoped that MAC will see to it that the newly drafted Hong Kong and Macao statutes be passed by the legislature before the end of 1996.

Lien urged that the semi-official negotiations on technical affairs across the Taiwan Strait be resumed by the Taipei-based Straits Exchange Foundation (SEF) and the Beijing-based Association for Relations Across the Taiwan Strait (ARATS) to solve the critical issues like immigrant smuggling, fishing disputes and other crimes on waters in the strait.

He ordered a boost to the organization of the SEF, saying that it's time to upgrade SEF operations and services to meet the ever-increasing demand from rising cross-trait exchanges.

Lien also said Vice Premier Hsu Li-te will be appointed as the chief coordinator for Taiwan's comprehensive mainland policy.

#### **SEF Head on Future Relations With Mainland**

*OW2408130895 Tokyo SANKEI SHIMBUN  
in Japanese 21 Aug 95 Evening Edition p 2*

[By correspondent Katsu Asama]

[FBIS Translated Text] Kenting, Taiwan, 21 Aug — Ku Chen-fu, president of the Straits Exchange Foundation [SEF], an organization established in Taiwan to promote exchanges between Taiwan and China, met on the evening of 20 August with a group of Japanese reporters at a hotel in the southernmost city of Taiwan, Kenting in Pingtung County. At the meeting, he commented on China-Taiwan relations, which have remained tense since the visit to the United States of Taiwanese President Li Teng-hui. He said, "China-Taiwan relations will not go smoothly over the next four or five years due to the political situation in China." In this way, he stated a pessimistic view on improving China-Taiwan relations.

At the meeting, Ku said, "Both China and Taiwan will continue their present contact" and disclosed that "China and Taiwan are still maintaining contact in Hong Kong and other places." He attended the Asia Open Forum, an international conference hosted jointly by Japan and Taiwan, which closed on 20 August, and met with the Japanese reporters after attending a dinner.

Discussing China-Taiwan relations, Ku said: "China sees President Li Teng-hui as a Taiwanese leader who

pulls the strings of a group of independence-minded Taiwanese behind the scenes. A small number of Chinese leaders have targeted Taiwan for covert operations." He went on to say that the Chinese Liberation Army is now test-firing missiles in waters near Taiwan following decisions made by hardliners in the Chinese military.

Claiming that the two test firings of missiles are intended to threaten Taiwan, Ku stated: "China is concerned about a domino phenomenon in which Japan, like the United States, invites President Li Teng-hui. China's test firing of missiles is taken as a warning against possible intervention in the Taiwan issue by the United States and Japan."

At the meeting, he disclosed that there is information that his Chinese counterpart, Wang Daohan, president of the Association for Relations Across the Taiwan Strait, an organization established in China to promote exchanges between China and Taiwan, appears to be under criticism by hardliners who are gaining strength in China.

Commenting on the future of China-Taiwan relations, Ku stated, "Relations will not go smoothly for the next four or five years." Giving reasons for that view, he said 1) Deng Xiaoping's health is extremely unstable, and the Chinese leadership is unable to make any important decision on the Taiwan issue; 2) China is now in a post-Deng era, and the transition of power is under way; 3) economic reform is not going well, and China is faced with a host of sticky domestic issues, including inflation and corruption.

Ku made it clear that China and Taiwan are continuing their contact, saying, "China and Taiwan are making invisible contacts in Hong Kong and other places." At the meeting, he expressed high expectations for an early summit between presidents of the cross-strait exchange organizations of China and Taiwan.

#### **Opposition Against Mainland Hosting Events**

*OW2508102295 Taipei CNA in English  
0953 GMT 25 Aug 95*

[By Sofia Wu]

[FBIS Transcribed Text] Taipei, Aug. 25 (CNA) — Taiwan's largest opposition party Friday urged the international society not to let Beijing host any international activities in the future.

The Democratic Progressive Party (DPP) said in a written statement that in view of Beijing's poor human rights records and repeated displays of military might to threaten world peace, the international society should no longer authorize Beijing to host any international conferences or activities.

During the past month, the statement said, Mainland China's People's Liberation Army conducted two large-scale military exercises just north of Taiwan to intimidate Taiwan to accept its terms of national unification.

"Such actions have escalated tension in the Taiwan Strait and threatened regional security in the Asia-Pacific," the statement noted.

Moreover, it added, Beijing has ignored international efforts to maintain world peace and continued to sell large quantities of weapons, including guided missiles, to such war-mongering countries as Iran and Pakistan in an attempt to expand international disputes and add to regional instability.

To retaliate for the treatment Mainland Chinese Premier Li Peng received during an international meeting held in Copenhagen, Denmark in March, the statement said, Beijing has deliberately denied or delayed issue of visas for hundreds of women delegates from Taiwan, Tibet, the United States and Europe to attend the Sept. 4-15 World Conference on Women and related NGO (non-government organizations) forum scheduled to start in late August.

Such moves, coupled with the arrest of Chinese-American human rights activist Harry Wu, have once again highlighted Beijing's disrespect for human rights, the statement stressed.

Noting that Mainland China has failed to show the "manners of a large country" and to meet international requirements in organizing the World Conference on Women, the DPP statement said all nations around the world should jointly boycott the conference and should no longer allow such a hegemonic communist country to host any international meetings or events.

Meanwhile, the DPP also urged Taiwan women representatives who have received visas to attend the Beijing conference on women not to attend the meeting because mainland authorities have granted visas to them in an attempt to downgrade the Republic of China [ROC] Government as a local government under the People's Republic of China.

The party further urged the United States not to improve relations with Beijing at the expense of Taiwan's national interests after Beijing released Chinese-American human rights activist Harry Wu.

**Lin 'Will be Happy' To Meet With Chen**

*OW2508105995 Taipei CNA in English  
0959 GMT 25 Aug 95*

[By Lilian Wu]

[FBIS Transcribed Text] Taipei, Aug. 25 (CNA) — Senior presidential adviser and Vice Chairman of the Kuomintang [KMT] Lin Yang-kang said Friday he will be happy to meet with Chen Li-an, head of the Control Yuan, saying that direct communication will render opportunities for future cooperation.

Lin said he hopes he can cooperate with Chen, adding that his presidential bid is for the sake of the nation and not or personal fame or fortune.

He noted that he and Chen hold similar ideas about government and public service, and said that there is a lot of room for cooperation.

Chen said earlier Friday that he wanted to meet with Lin, saying he has great respect for Lin and his long experience in government.

Despite suggestions that a Lin-Chen ticket would be stronger than individual campaigns, Chen emphasized that he is determined to seek the presidency.

Chen, a devout Buddhist, has said he is taking part in the campaign with a missionary zeal and noted that the outcome will be as important as the process.

He also said that he would listen to the voices from all walks of lives to seek a running mate which shares his ideals.

Chen reaffirmed that he would run as an independent, saying he will help the nation maintain stability after he is elected.

Lin, who withdrew from the KMT nomination process this week but remains a KMT member, was asked if Chen's independence would affect any future cooperation.

Lin said his withdrawal from the KMT nomination process makes him a bit of an independent as well.

As independent candidates, both Lin and Chen must collect 210,000 signatures from eligible voters, or 1.5 percent of the electorate, by December 31 to run in March 1996 election. Observers say that given their popularity, both Lin and Chen should have no problems getting the required signatures.

**Minister Criticizes Japanese Actions**

*OW2408135095 Tokyo KYODO in English  
1334 GMT 24 Aug 95*

[FBIS Transcribed Text] Taipei, Aug. 24 KYODO — Taiwan's economics minister on Thursday criticized Japan for moving to bar top Taiwanese officials from a summit of the Asia-Pacific Economic Cooperation (APEC) forum in Osaka in November.

Chiang Pin-kung told KYODO NEWS SERVICE in an exclusive interview that the Japanese moves contravene APEC's egalitarianism and undermines the position of Japan as an international power.

Japan is reportedly moving to bar Taiwan's President Li Teng-hui and Vice Premier Hsu Li-teh from the meeting.

China, which considers Taiwan a renegade province, has repeatedly warned Tokyo against allowing Li, Hsu or any other top Taiwanese official to attend the summit.

**Paraguay's Wasmoy Arrives for 4-Day Visit**

*OW2508102495 Taipei CNA in English  
0927 GMT 25 Aug 95*

[By Sofia Wu]

[FBIS Transcribed Text] Taipei, Aug. 25 (CNA) — Paraguayan President Juan Carlos Wasmoy received a military salute at the National Concert Hall in downtown Taipei Friday at the start of his four-day state visit to the Republic of China [ROC].

The welcoming ceremony, presided over by ROC president Li Teng-hui, was originally scheduled to be held at the plaza in front of the Chiang Kai-shek [CKS] Memorial Hall. However, heavy rain forced the ceremony into the National Concert Hall at the CKS Memorial Hall complex.

Speaking at the ceremony, Li said he believes Wasmoy's visit will help strengthen the already cordial relationship between the two countries and further upgrade bilateral cooperation in various fields.

Despite geographical distance, Li said, the ROC and Paraguay have maintained close relations because the two countries share the same ideals of freedom, democracy, peace, justice and human well-being.

Li expressed his admiration for Wasmoy's achievements in promoting Paraguay's democratic reforms and economic development as well as upgrading its people's living standards since he assumed the presidency in August 1993.

For his part, Wasmosy said he admires the ROC's political and economic achievements and hopes to learn more about Taiwan's developmental experience during his current visit. In addition, Wasmosy said he will exchange views with President Li on the general international situation and on ways to further promote ROC-Paraguayan relations.

Wasmosy, leading a 30-member entourage, arrived in Taipei Thursday night, for his first official visit to the ROC since he became Paraguay's first civilian head of state two years ago.

Accompanied by ROC and Paraguayan officials, Wasmosy visited the Hsinchu Science-Based Industrial Park, some 60 kilometers south of Taipei, in the afternoon.

President Li will host a state dinner in honor of Wasmosy in the evening. On Saturday, Li and Wasmosy will sign a joint communique reaffirming their commitment to further cementing ties between the two countries.

Wasmosy, 57, will deliver a keynote speech at the opening ceremony of the Eighth ROC-Paraguay Economic Cooperation Conference to be held at the Ministry of Economic Affairs Saturday. The meeting will be co-chaired by ROC Economic Affairs Minister P. K. Chiang and his Paraguayan counterpart Ubaldo Scavone Yodice.

Wasmosy will also preside over an investment seminar to be held on Saturday afternoon to court Taiwan businessmen to invest more in his country, particularly in its oriental city which borders Argentina and Brazil.

Paraguay is the only South American country that maintains formal diplomatic ties with the ROC. The ROC has stationed an agricultural technical mission in Paraguay.

Wasmosy and his entourage are scheduled to leave Taipei Sunday.

#### Researchers Note Economic Fundamentals 'Strong'

OW2508102395 Taipei CNA in English  
1005 GMT 25 Aug 95

[By Lilian Wu]

[FBIS Transcribed Text] Taipei, Aug. 25 (CNA) — Taiwan's economic fundamentals are still strong and share prices have no reason to drop in the second half of the year, Taiwan Institute of Economic Research researchers said Friday.

The researchers said that since the three major political parties have fielded candidates for next year's presidential election and investors are used to missile tests by Mainland China, psychological barriers have been re-

moved and the bourse will return to its strong fundamentals.

They said that though economic growth will be lower than the estimated 7.02 percent, economic fundamentals will remain good, and there is no reason for share prices to continue to slide.

The Taiwan Stock Exchange dropped below 5,000 last month and has shown no sign of rebound despite efforts to revive the sluggish bourse.

The researchers are optimistic about the performance of share prices in the second half of the year. Noting that the third and the fourth quarters are traditionally high seasons for Taiwan exports, they said the increased exports will stimulate further economic growth.

In the political field, military exercises by Mainland China or rumors about the death of paramount leader Deng Xiaoping will not affect the bourse as much in the future. Now that the presidential candidates from all parties are clear, speculation is expected to decline.

He said that barring a combined presidential bid by senior presidential adviser Lin yang-kang and Control Yuan President Chen Li-an posing a threat to President Li Teng-hui, the performance of local bourse will be better in the second half of the year.

#### Bank Reports Drop in Money Supply Indicators

OW2508102595 Taipei CNA in English  
0936 GMT 25 Aug 95

[By Sofia Wu]

[FBIS Transcribed Text] Taipei, Aug. 25 (CNA) — The annual growth rates of Taiwan's three major money supply indicators dropped to a four-and-a-half-year low in July because of sluggish demand for cash in the private sector, the Central Bank of China (CBC) reported Friday.

The broadly-defined M2 money supply grew at an annual rate of 9.73 percent in July, the lowest since February 1991, according to CBC tallies.

It was the 14th month in a row that the M2's annual growth rate has declined, and the third straight month that the M2's growth rate has fallen below the CBC's targeted range of 10 to 15 percent.

July's M2 annual growth rate was also 0.04 percent lower than the June level.

CBC officials said the decline in the M2 growth rate reflected lower-than-expected demand for cash in the private sector. Stagnant real-estate sales and slumping

stock prices have further hindered money supply growth in recent months, the officials noted.

Nevertheless, the officials said, the current M2 growth rate is still high enough to sustain Taiwan's economic development.

They also predicted that the M2 annual growth rate will return to the targeted level by the end of August now that the CBC has adopted a series of credit-easing moves and channeled huge sums of money into the banking system in recent weeks to help stabilize the local financial market in the wake of a row of financial scandals.

M2 is the broadest measure of a country's total money stock, comprising cash in circulation, deposits at checking and demand accounts plus quasi-money, which includes time deposits and treasury bills.

Meanwhile, the narrowly-defined M1A money supply registered a 2.49 percent negative growth in July as compared with the year- earlier level. It was the lowest M1A growth rate in 52 months. M1A comprises currency in circulation plus checking and demand deposits.

In July, the annual growth rate of M1B money supply, which comprises M1A plus passbook savings deposits, also slid to a 52- month low of 2.25 percent. Compared with June, the rate dropped 1.63 percentage points. M1B is widely believed to be the most telling indicator to measure a country's money supply situation. Its decline pointed to slower business activities during the month. Financial observers said sluggish stock and property trading was a major reason behind the M1B decline.

### Hong Kong

**Fujian Officials Expel 2 Journalists 25 Aug**  
*OW2508085595 Beijing XINHUA in English*  
*0747 GMT 25 Aug 95*

[FBIS Transcribed Text] Fuzhou, August 25 (XINHUA) — Two journalists from the Hong Kong-based Next Magazine were expelled this afternoon after being charged with illegally collecting military secrets.

The two journalists, Qu Yingyan and Xie Mingzhuang, were found to have entered the coastal area of east China's Fujian Province on August 18, disguised as tourists in order to obtain military secrets surreptitiously. They were spotted by local residents and reported to the state security department in Fujian on August 20.

During an inquiry, they both confessed that they had been sent by Zhang Jianhong, editor-in-chief of the Next Magazine to obtain information and take photos of military manoeuvres in the coastal areas of Fujian.

After entering, the two took photos of military installations at Xiamen, Fuzhou, and Dinghai cities, and tried to collect information about troop movements, keeping contacts with Zhang by telephone.

They said they knew that their acts were illegal, but said, "The editor-in-chief said it doesn't matter and asked us to do so. We could do nothing but obey."

They confessed that they were guilty of illegally collecting military secrets and expressed remorse about their acts.

The acts of the two violated the State Security Law and the Law on the Protection of Military Installations, and seriously compromised state security. The Fujian Provincial State Security Department expelled them in accordance with Article 30 of the State Security Law.

**Panel Meets on Economic, Trade Relations**  
*OW2408141895 Beijing XINHUA Domestic Service*  
*in Chinese 1505 GMT 18 Aug 95*

[By reporter Fang Jin (2455 3866)]

[FBIS Translated Text] Beijing, 18 Aug (XINHUA) — The Economic Subcommittee of the Preliminary Working Committee [PWC] for the Hong Kong Special Administrative Region [SAR] Preparatory Committee held its 18th meeting in Beijing today. The meeting discussed several issues of economic and trade relations between Hong Kong and the mainland after 1997.

Members discussed and approved the subcommittee's "Suggestions on Fundamental Principles and Policies on Economic and Trade Relations Between Hong Kong and the Mainland After 1997 (Amended Draft)." The

meeting decided to submit this document with the "Suggestions on Fundamental Principles and Policies on Financial Relations Between Hong Kong and the Mainland after 1997 (Amended Draft)" to the PWC's sixth plenary meeting.

On the question of a coordinating mechanism for economic and trade relations between the two localities, the members unanimously felt that it is important to do a good job in coordinating various policies on economic exchanges between Hong Kong and the mainland after 1997. However, there must be a unified organization in charge of overall operations to prevent differences in policies from various departments. It is necessary to avoid interference in the affairs that fall within the Hong Kong SAR's authority.

The members exchanged initial opinions on extension of land contracts that lack extension rights at their expiry after 1997. The members held that, in accordance with the specifications of the basic law, this issue should be handled by the SAR Government. Proceeding from specific situations of Hong Kong society and in accordance with relevant stipulations of the Sino-British Joint Declaration, this subcommittee will forward suggestions on handling this issue to the SAR Government for reference. The members suggested that basic situations of this category of land contracts be requested from the Hong Kong-British Government through the Sino-British Land Committee for use in studying this issue.

At the meeting, the members also held initial discussions on how to handle correctly Hong Kong-Mainland relations on statistical affairs after 1997. The members unanimously held that after 1997, Hong Kong's statistics is a part of the unified and overall statistics of the sovereign state. However, Hong Kong and the mainland are still two regions with relatively independent statistics. The two localities should, in accordance with their different statistical systems and legal specifications, independently collect socioeconomic statistics and provide statistical data to the outside. In essential nationwide statistical tallies of national conditions and national strength, the Hong Kong region should independently list and show these data.

**Editorial Analyzes Rate of Voter Registration**  
*HK2508091395 Hong Kong TA KUNG PAO*  
*in Chinese 5 Jun p a2*

[Editorial: "Hong Kong Voters Do Not Welcome Pattern's Proposals"]

[FBIS Translated Text] The registration of voters for the Legislative Council [Legco] election which closed

last week was one of the steps in implementing Chris Patten's "constitutional reform package." The result of the registration shows that Patten's proposals have been rejected by the majority of people in Hong Kong: The registration rates for the newly defined functional constituencies and the constituencies in which corporate votes had been changed to individual votes both were very low. Great confusion was caused by the registration process, giving rise to conflicts and confrontations. It has therefore added to the difficulty for the patriotic and Hong Kong-loving personalities in expanding their participation in political affairs in the run-up to the transfer of sovereignty of Hong Kong.

The Hong Kong Government spent tens of millions of Hong Kong dollars and mobilized tremendous human and material resources to conduct that round of voter registration. Although the specific figures have yet to be published, it is known already that the registration rate among the eligible voters in the "nine new constituencies" was only over 30 percent; the registration rate in 10 functional constituencies where the voting method had been changed was about 20 percent. The number of individual voters registered as corporate voters was even smaller than the number of corporate entries before, which represented an actual decrease. The overall registration rate failed to reach 50 percent, which means that the majority of eligible voters were not registered. In this case, how can a high level of representativeness be achieved? Why was this disproportionate result scored after so many resources were expended and all kinds of methods exhausted?

The Basic Law specifies that the constitution of Hong Kong's legislature should be based on the reality of the territory, and should follow the principle of orderly and gradual progress. All places in the world where democracy has been successfully developed have gone through a process of progress in an orderly and gradual way and expanding in a step-by-step manner. This process covers the establishment of all kinds of systems, the improvement of procedures, and the maturing of concepts. The electoral system of Britain itself went through centuries of evolution before general elections were achieved. The coming into being of Hong Kong's functional constituency election has historical and present-time reasons, and its function is also to build democracy in an orderly and gradual way, and to the extent possible, to maintain balanced participation in the process of development so as to promote social stability and prosperity. Patten's proposals violate the principle of converging with the Basic Law, deviate from the reality of Hong Kong, distort the democratic idea, and equate the issue of more votes with "fairness and openness." Therefore, the "nine new constituencies" op-

tion proposed by him has fundamentally sabotaged the significance of functional constituency election, turning it into a disguised form of direct election. The existing Legco already has seats created by district direct election and individual vote. Patten's proposals now try to have functional constituency-generated seats created by direct election, causing confusion and conflicts. They are cold-shouldered and even resisted by the voters. This is the main reason why the registration rate was so low.

What happened in the course of registration was that many people did not know the difference between direct election and the "nine new constituencies" election, which constituency they belonged to, or how many votes they could have. A sample survey among residents revealed that the majority do not understand what the new functional constituencies are all about. And it is not just the general public. Even many well-educated residents cannot get it. This is not their fault. It is all because the content of Patten's proposals is illogical. As there is a vote for district direct election, why does "a working person have an extra vote?" Why are employees holding different positions and doing different work put in the same constituency by the employer? While Filipino domestic helpers have a vote, why do the housewives employing them not have one? Many people also have asked this question: Why are Filipino domestic helpers and journalists put into one constituency? The people of Hong Kong generally do not have very fixed employment, and they often change jobs or go through unemployment and re-employment; job mobility is high. How can the constituencies they belong to be adjusted accordingly in the coming months? Because of all these contradictions and confusions, though facing the threat of being penalized by the Hong Kong Government, many of the employers responsible for reporting and registration refused to report. As a result, the functional constituencies that used to be quite representative have become new functional constituencies plagued by minority representation.

The confusion and disorder that emerged in the course of the registration probably will last until the election campaign and voting in the future. The functional constituencies were originally meant to represent the interests of balanced social development of the territory as a form of collective participation. However, under Patten's proposals, struggle within individual functional constituencies is encouraged. For instance, between journalists and Filipino domestic helpers, who should represent whom? Where is the fairness? The extra vote put on the district direct election vote affects, and is affected by, the latter, adding confusion to the election campaign and voting. When the voting day comes, if explanation and clarification is called for on the spot,

it will increase the external interference in the balloting station. When the implementation of Patten's proposals has reached this stage, the people of Hong Kong are fully aware that they are self-contradictory as a concept and cause confusion when implemented. They are not at all in tune with Hong Kong's reality and definitely should be annulled in 1997.

To greet the recovery of Hong Kong's sovereignty and monitor the administration in the late-transitional period, patriotic and Hong Kong-loving personalities have been actively trying to participate in political

affairs, but the proposals designed by Chris Patten have set obstacles to this process. Many patriotic groups have tried hard to promote voter registration, only to get half the results with double the effort because of the contradictions and confusion caused by Patten's proposals. The effectiveness of their efforts has been greatly reduced as a result. Patriotic and Hong Kong-loving personalities will encounter numerous difficulties in their efforts to participate in electoral affairs and the election campaign in the coming months.

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